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# **INDIAN INDUSTRIAL AND ECONOMIC PROBLEMS.**

BY

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## PREFACE.

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The papers in this book have not been arranged on any particular plan, nor do they all lay claim to an exhaustive treatment of the subjects dealt with in them. They are, for the most part, reprints of essays and articles contributed to Indian journals and submitted to the Indian Industrial Conference during the last four years.

India's industrial and economic problems are many and varied, and though no definite system has been followed in their selection and treatment in the following pages, the more urgent and important among them find a place in the book, which, as a whole, has thus a sort of unity of its own. In one of the chapters the author has attempted a realistic picture of the present economic situation in India and the lineaments have been drawn with a careful and impartial hand. There is usually much loose thinking upon the subject and the critics veer between two extremes. Here the author has tried to strike a correct balance. In another chapter, the slow but steady progress made by the indigenous industries during the last generation, has been traced, and in another place, the right attitude which people ought to take up in the matter of the industrial revival, has been clearly indicated. The recent rise in the level of prices has caused an amount of anxiety and speculation as to its



probable causes. The paper on high prices sets forth the various theories propounded with regard to that economic phenomenon and states the several factors that are held to be involved. The author feels that the currency policy of Government has probably to do something with the almost sudden jump which prices took about seven years ago and he has explained this connection in a note, which has been submitted to the Prices Inquiry Committee. The attitude which the state takes up with regard to the nation's industries, determines in many cases, the rate of the progress which those industries make. This truth requires special emphasis in a country like India and in the chapter entitled National Economics and India, the development of economic thought on the subject has been traced and the moral pointed out. No question in Economic science has given rise to a greater divergence of opinion and a more bitter controversy than that relating to the doctrines of free trade and protection. England is, to-day, the main battle ground of the two theories and the conflict has been raised even in this country. The author is a moderate though a staunch protectionist, and has taken a calm and dispassionate view of the whole question. While he condemns unmitigated free trade as an unsuitable economic policy for India, and puts in a vigorous plea for the protection of indigenous industries by the state, he is careful in pointing out the real scope and limitations of Indian protectionism. The status of India in the British Empire has much economic significance which has

## PREFACE.

been brought out in not a few of the chapters. The plausible schemes of Imperial Preference adumbrated by British tariff reformers have been dissected and their illusive and chimerical character has been exposed. This problem as well as that of the state's duty by its people, are particularly important at the present moment and have therefore been dealt with at some length. The author's conclusions are throughout based upon a close study of facts and figures and upon careful deliberation and no effort has been spared to procure and make use of all available information.

This *resume* will convey to the reader an idea of the wide ground the book covers and of the many pressing problems that have been tackled. It is hoped that the book will assist the student of Indian Economics in the formation of a correct estimate of India's economic situation and of the various complicated questions involved therein. A fair and faithful representation of India's case has become necessary also in view of the interest which has been roused in her problems in England and the peculiar views that are often entertained there with respect to them. The book is ~~calculated~~ to meet this want, and the author will feel amply rewarded if his expectations are even partially fulfilled.

FERGUSON COLLEGE, POONA. } \* V. G. KALE.  
23rd June, 1912.

## Indian Arts, Industries and Agriculture

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# Indian Industrial and Economic Problems.

## I

### IMPERIALISM AND IMPERIAL FEDERATION

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"The idea, then, which I would venture to suggest as governing all other ideas regarding our management of India is this fundamental idea of treating the relationship between us and the people of India as one of hearty comradeship"—Colonel Sir Francis Younghusband.

The British Empire is, indeed, a marvel of modern times, the like of which the world has never seen before. In its extent and population, development and constitution, and in its wealth and resources, it stands in marked contrast with and surpasses similar other aggregations known to ancient, mediæval and contemporary history. The small sea-girt isle, lying in a corner of Europe, at one time a part of one of the mightiest of empires, organised itself, by a steady process of assimilation and consolidation, into a strong and vigorous state and its people began very soon to stretch out their hands to grasp external dominion on land and sea, in Europe and outside it. In the struggle which ensued for mastery among the European nations, England obtained a decisive victory and the fall of Napoleon left her in undisturbed possession of the field. The United Kingdom could thus freely carve out its eventful imperial destiny, and though the Declaration of Independence by the American

colonies lopped off a large and rich part of the Empire, the loss has, since then, been more than counter-balanced by the valuable acquisitions made later in India, Africa and Australia. And to-day the Empire stands without a serious rival in its enormous commerce and wealth, the myriads of its varied citizens and its splendid fleet and army.

After the fall of the Roman Empire, Europe relapsed into barbarism and chaos. The traditions of the Empire were, however, sought to be maintained in new environments in Western Europe and at Constantinople. On the conquest of Byzantium by the Turks, the memories of the Empire continued to be cherished and its shadows venerated in Germany till in 1806, the last Holy Roman Emperor abjured his sonorous but empty title. By the end of the Mediæval period, the European peoples had begun to fall apart into distinct nationalities and were, for two centuries, engaged in the work of consolidation and enfranchisement, political and religious. The process of nationalisation was completed in the last century and the unification of Germany and of Italy represents the last phase of that evolution. This internal movement synchronised with an external movement of expansion and conquest. The European scramble for dominion was transferred to Asia and Africa and to-day every state in the West has its colonies, dependencies and spheres of influence outside Europe. The recent wars waged by France and Italy in North Africa are typical of the European hunger for empire.

These nations have their own peculiar imperial problems to solve and it does not appear that lapse of time will render their solution easier. But as has been remarked above, the British Empire stands out in sharp contrast with the other contemporary empires. The latter are more or less autocratic in their dealings with their colonies and dependencies. The United States, France and Portugal have smaller dependencies to control and though the colour difficulty confronts all the imperial states, whether monarchical or republican, the British Empire has to face certain developments which do not trouble the others. In the case of the British aggregation of states the title of Empire is a misnomer. If the Crown colonies and dependencies are left out of account, that Empire is a federation of independent units very much like the United States of America, where, however, the nationalism and cohesion are more complete. The presence of India among the constituent parts of the Empire is its main title to be called an Empire and this country is by itself an empire within the so-called larger Empire. The Imperial Government has only a nominal hold over the self-governing colonies of Canada, Australia, New Zealand and South Africa, which are practically independent. The bonds which bind them to one another and to the mother country are ties of common blood and common interest. The old colonial policy which lost England her American children has been replaced by an attitude of friendliness and sisterly attachment. Great Britain has supplied the colonies with capital necessary to finance their

railways and industries and with the men and women required to exploit the untapped resources of their virgin lands. The burden of defending them falls upon the mother country which receives no contributions from the colonial treasuries. In return for these services the United Kingdom gets new and expanding markets for British manufactures and outlets for its surplus population as well as the supplies of food and raw materials.

Imperialism has latterly been commonly associated with land-grabbing and lust of wealth, with reckless ambition and pride and with militarism and brutality. Hence the word has now got a rather sinister odour about it. The way in which European states have been fighting over the partition of Africa, in defiance of international morality, the indecent scramble that is going on among those nations for the acquisition of dominion and wealth, and the manner in which the helpless inferior races are being driven to the wall and even trampled upon—all this lends strong colour to the contention of those who maintain that modern imperialism is degrading, selfish and immoral. These people assert that modern imperialism has created an aristocracy of speculators, capitalists and bond holders in whose hands wealth has rapidly accumulated and who embroil their states in quarrels in undeveloped countries where they wish to invest their superfluous cash. It is said that the advent of these men in Asia and Africa has brought no civilization, liberty and happiness into those continents and that imperialism

is a mere cloak to conceal selfishness, greed and pride. Mr. J. A. Hobson\* thus sums up his views with regard to modern imperialism :—"Imperialism is a depraved choice of national life, imposed by self-seeking interests which appeal to the lusts of quantitative acquisitiveness and of forceful domination surviving in a nation from early centuries of animal struggle for existence. Its adoption as a policy implies a deliberate renunciation of that cultivation of the higher inner qualities which, for a nation as for an individual, constitute the ascendancy of reason over brute impulse. It is the besetting sin of all successful states and its penalty is unalterable in the order of Nature." This is rather hard language, but it will be conceded, not sufficiently hard to condemn the atrocities committed by certain Western states upon the helpless negroes.

This dark picture does not, however, represent every species of contemporary imperialism though some of the ugly spots pointed out above are present there also. Opinions may differ as to whether imperialism is the last word in the progress of human societies or nationalism is the final stage in the healthy growth of peoples. But there can be no doubt that there is a higher and nobler species of imperialism which is calculated to make a notable contribution to the progress of world's civilization. The idea of a universal monarchy and a universal religion has haunted the minds of scholars and philosophers from the times of the Roman Empire. The ideal has,

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\* "Imperialism"—A Study by J. A. Hobson.



however, been seldom realized and the distinctions of race and nationality have triumphed. Sober-minded British\* imperialists assert that their creed is not the glorification of conquest. It has created a system of states which is no longer merely European but cosmopolitan and the field of diplomacy has become world-wide. This, of itself, is not a great advance over the old state of things. Yet an imperialism which honestly seeks to take the torch of knowledge and civilization to the dark corners of the earth and tries to raise the backward races to a higher level of life is a policy that may be commended to the attention of imperial statesmen. Unfortunately the action of imperial statesmanship falls far short of the theory and thus the advantages of an empire become doubtful. The autocratic and irresponsible domination over vast masses of economically inferior races breeds in the rulers a haughty contempt for the noble principles of liberty and justice on which the democracy at home is based, while the subject populations get no scope to rise from the depressed condition in which they find themselves sunk. By a combination of superior genius for organization and material advancement and good fortune, the British race has built up a vast empire and the question that confronts the British people is, shall they allow it drift where it may or shall they make efforts to promote its unity, strength and prosperity? A sense of imperial responsibility has been created in the mother country and the colonies and they are laying

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\* The "Imperial Ideal" by Mr. W. F. Monypenny.

their heads together to concert measures for the purpose of common defence and mutual assistance. Apart from what are called little Englanders, who look upon colonies as encumbrances and ripe fruits falling from the tree, and others who believe that imperialism is an undesirable ideal for a nation to place before itself, there are many who take the Empire seriously and wish well to it, but at the same time, disapprove of the coercive and selfish measures which are associated with imperialism. They agree that the British Empire has a noble and a notable part to play in the history of civilization by maintaining the cause of peace, justice and humanity in the world but they do not believe in imperial unity secured by artificial ties. They would leave the integral parts of the Empire free agents to evolve their own destiny along their own lines and would control even a dependency like India only so far as her interests require such external restraint. They do not speak of accretions of territory and financial gain as assets of the Empire but emphasise its potential beneficial influence that may be exerted all round. The two political parties in Canada recently fought over the issue of the reciprocity agreement with the U. S. A., with the result that the proposed treaty is now shelved for an indefinite period. Mr. Borden's victory is regarded as a triumph of imperialism and Canadian nationalism at one and the same time. It was really the bogey of eventual absorption of Canada by the United States, partly justified by the past neglect of Canadian interests by the Imperial Government, which

brought about the fall of Sir Wilfrid Laurier. That liberal statesman and those who think with him in Canada and the United Kingdom, feel that a more convenient fiscal arrangement between the two conterminous nations need not affect the relations between Canada and the mother country. While the British Liberals are sorry that the proposed Reciprocity Agreement which would have led to freer and more profitable trade between Canada and the United States should have been rejected by the electors in the dominions, they congratulate the Canadians, who are a mixture of English and French settlers, upon their national solidarity and deep attachment to the British Empire. The Conservatives charge their opponents with a lack of patriotism and fore-sight and with a cosmopolitanism that would sweep off all national distinctions. The readiness of Liberals to give self-government to Ireland and even to Scotland and Wales enforces still further the divergence of views held by British politicians on the Imperial among other questions.

Despite this divergence of opinion on the Imperial problem the brains of British thinkers have long been engaged in evolving schemes for the proper organization of the scattered members of the Empire into a united whole. Leaving the colonies to take care of themselves and contract alliances with foreign powers, is not a policy that could meet with general approval. The Federation League began its agitation twenty-five years ago and preached the doctrine that the resources of the Empire ought to be combined for

common defence and all the parts which have their share of imperial burdens, must have a voice in the control of imperial expenditure and imperial policy. Since then positive proposals have been made and discussed\* and the agitation in favour of an imperial federation has become more active after the experiences of the Boer War. It is contended, in the first place, that the burden of the business which the British Parliament has got to rush through has become so heavy that it is almost impossible for it to discharge its legislative duties efficiently. The Parliament has to look to the purely local affairs and then to those of Ireland, of the colonies though they enjoy self-government, and of the dependencies, and thus its control of the Empire is naturally slack and ineffective. Secondly, the existence of the British Empire depends upon the maintenance of the sea-power. The mother country has to defend its colonies and dependencies and to keep up a large and costly fleet. The colonies make no contributions towards the expense of the Navy which the British tax-payer has to bear. It is but justice which requires that in return for the protection they receive, the oversea dominions of the Crown should contribute their own share. But this taxation, though it may be cheerfully borne by the colonies at the outset, may in course of time, be regarded as an exaction. Then again, the colonies may not agree with the mother country with regard to the propriety and need of certain items of expenditure undertaken by the Imperial

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\* "Problems of Empire" by the Hon'ble T. A. Brassey.

Government. They will demand an adequate representation in the counsels of the Empire. On these grounds an imperial council or federal assembly, in which the various parts of the Empire will be represented, has been proposed. The question was discussed by the last Imperial Conference also. There are obvious difficulties in the way of inaugurating such a federal assembly. The long distances which separate England from the outlying parts of the Empire, the difficulty of apportioning the contributions to be made by each, and the questions that must be submitted to the council without embarrassing the position of the Foreign and Colonial offices, are some of these difficulties. However desirable a federal union may be, the obstacles in the way are too serious to be brushed aside. Mr. J. A. Hobson asks, "But how can the White democracies of Australia and North America desire to enter such a hodge-podge of contradictory systems as would be presented by an imperial federation, which might, according to a recent authority, be compiled in the following fashion : first a union of Great Britain, Ireland, Canada, West Indies, Australia, Tasmania, New Zealand, Newfoundland, Mauritius, South Africa, and Malta to be followed later on by the admission of Cyprus, Ceylon, India, Hongkong, Malayasia with an accompaniment of semi-independent states such as Egypt, etc.?"\* The federation is likely to be too unwieldy for efficient action and may probably give rise to serious complications which can be easily foreseen.

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\* "Imperialism"—A study by J. A. Hobson.

Thus the problem of imperial federation or a closer imperial union on certain definite principles bristles with enormous difficulties. Yet it is generally felt in the United Kingdom and the self-governing colonies that something must be done to obviate the inevitable disruption which will overtake the Empire if matters are allowed to drift. Since the Boer War, which evoked a spontaneous outburst of imperial loyalty throughout the colonies and dependencies and which demonstrated the urgency of a closer union of hearts, heads and hands, the imperial sentiment is growing stronger every day. Imperial conference after conference, in which the Prime Ministers of the colonies have conferred with the representatives of the mother country on subjects of common interest such as those of defence, communications and treaties with foreign powers, have served to keep the question fresh before people's eyes. Not only sentiment, but self-interest also, has made a United Empire an urgent necessity. The Australian Commonwealth with no means of self-defence and the yellow peril always haunting its mind, stands badly in need of naval assistance. The other colonies are similarly exposed and must needs look up to the mother country for means of defence. Conscious of this condition of 'helpless dependence they have offered to make contributions to the Imperial Navy and the question of maintaining a standing armament in the Eastern waters has been mooted. The mother country too wants the co-operation of the oversea dominions to share the growing burden and responsibi-

lities of the Empire. For the past decade Mr. J. Chamberlain has been a strenuous advocate of the cause of imperial unity which, he believes, may be brought about by means of preferential tariffs within the Empire.

Mr. Chamberlain maintains that the opening years of the present century saw the end of one chapter in the history of the British Empire, that with the Peace of Vereeniging the era of expansion was definitely closed and that it is high time to think seriously of consolidation. He observes :—"The future of the Empire lies henceforward, not in its power to annex new territories, but in its capacity to unite existing dominions and develop existing resources. This is a more humdrum, but not a less difficult task. To it all our efforts should be directed whilst the nations that compose the Empire are still plastic, and before the growth of distinct national characteristics and divergent national interests has proceeded to such a point that what is now possible has for ever become impossible, and opportunities which are still within our grasp have finally passed away."\* He points out what is now a commonplace of political study, that the territorial expansion of the British Empire was, in the main, a hap-hazard affair. Luck favoured the genius of his race in the extension of the Empire, but luck is too fickle to be relied upon and he calls upon his countrymen to face the issue squarely. He sums up the problem in these words :—"We have been, on the whole, wonderfully fortunate, but we

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\* Preface to "The Case against Free Trade" by Dr. W. Cunningham.

cannot trust for ever to good luck. Success breeds envy; jealous eyes watch our progress, measure our strength or weakness, and seek out the joints of our armour. We are great in territory, strong in numbers, and rich in vast but undeveloped resources. But our union is of the slightest, and our development has scarcely begun. Are they also to be left to chance? Are they also to be the blind sport of forces which we but dimly understand and do not seek to control? Or is an effort to be made to find, and having found to pursue, a common policy by which the development of each may be made to serve the interests of the whole, and the strength of the whole to safe-guard and promote the development of each? ”\*

This, in a nutshell, is the imperial problem, presented by the “Missionary of the Empire,” who preaches that the Empire cannot be held together by mere sentiment, which must be supported by something more solid, *i.e.*, preferential tariffs, binding together the various members with commercial ties to the exclusion of foreign rivals. Now, it may be said, this imperial federation or union is all very fine; but what is the position which will be assigned in it, to this country? India is only a dependency, albeit the largest and the most populous of all the portions of the Empire. It may be regarded as a crown colony with no responsible self-government such as is enjoyed by Canada, Australia or South Africa. India’s present and

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\*Preface to “The Case against Free Trade” by Dr W. Cunningham.



prospective status is viewed differently by people of different principles. The maxim most popular with one set of politicians is that India has been conquered by the sword and with the sword it must be maintained. They make no secret of the doctrine that the resources of this country must be at the disposal of its rulers and even the thought of educating and training its people to take their proper share in the administration of its affairs is intolerable. This line of thought represents the crudest form of imperialism found in vogue in the dependencies of some foreign European nations like Java of the Dutch. There is another school of imperialists who think too much of their own civilization and greatness to have any sympathy for the people of the dependency. Loaded with the "white man's burden" they would ever maintain their paternal domination over the subject races alleged to be constitutionally incapable of self-government, for the latter's benefit. Their imperialism is the glorification of conquest and the means of benefiting the predominant power in a variety of ways. Under it no political privileges can be conferred on the ruled as the country is to be governed for them from outside. A more liberal view is taken by a few broadminded and sympathetic statesmen who regard the Indian heritage as a trust and have a high sense of their responsibility towards this dependency. They believe that it is the sacred duty of the British nation to govern India solely in its interest and gradually to prepare its people for self-government. These high-minded and altruistic statesmen are

charged with being silly sentimentalists and impractical day-dreamers—a charge which a closer examination of their position does not sustain. They know it would be a blunder, a crime for England to leave the Indian people to shift for themselves, a prey to internecine quarrels and to external foes. But they would educate the people and gradually train them for self-government and are prepared ultimately to stand aside or retire. This would be the noblest achievement of the British race, thoroughly in harmony with its best traditions.

To the selfish, narrowminded imperialist, the idea of India standing on the same level as the self-governing colonies in any scheme of federation must, of course, be inconceivable though she may perhaps be represented therein by its government. Others think that her position as a dependency makes her representation in the Imperial Council superfluous or impossible. She therefore stands where she is, federation or no federation. Some of those, however, who know the Indian people, their intelligence, loyalty and the progress they are making, are of opinion that though the immediate granting of self-government and representative institutions would be premature, India ought to take a conspicuous place in any imperial assembly that may be formed. Thus Sir Charles Crosthwaite, K.C.I.E., observes :—  
' If Mr. Chamberlain's scheme for tariff reform or for preferences to our Colonies and Dependencies ever comes to anything, India will have to be dealt with on the same terms as the colonies. That is to say, she must enjoy equal fiscal freedom with them and be allowed to

work out her own salvation. Moreover, should a Council or Conference of the Empire be called hereafter, she cannot be excluded from it..... There are men in India of high birth and sober, reflecting statesmanship who would adorn a seat in such an assemblage and whose advice would be of real value." And further:—"In conclusion I would observe that in any scheme of imperial federation India is bound to take a conspicuous place. Dependency though she is, she is a great country—a country whose greatness is growing.....The greater her independence, the more she will be able and willing to do for the Empire at large. It is for us to see that the rightful position of India is recognized and accorded to her."\* This is the proper and statesmanlike view for Great Britain and the Colonies to take with respect to this country. Its ancient civilization, its strategical, military and commercial value to the Empire and the loyalty of the three hundred millions of its people to the British Throne entitle it to a position of equality among the component parts of an imperial federation. Unfortunately the self-governing colonies, proud of their independence and haughty in their isolation, are not inclined to admit India to a place by their side in an imperial union. At one time their attachment to the mother country was an object of doubt and uncertainty and they might have allied themselves with or been merged into their foreign neighbours. This attitude has been definitely changed and their loyalty to the Empire is

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\* India: Present and Future in 'Empire and the Century'.

now an undoubted fact. The treatment which the colonies, in defiance of the mother country, accord to Indian British subjects shows that they are not prepared to regard the latter as members of an imperial union. The humiliating restrictions which are placed upon Indians in South Africa, Canada and Australia, the helplessness of the Imperial Government to put a wholesome pressure upon colonial legislatures in the matter and the fact that the Government of India has been compelled to resort to measures of retaliation against South Africa are not hopeful features of the proposed imperial federation. If one member of the Empire finds it necessary for its interest and in defence of its rights, to retaliate against another, the prospect of a union is indeed far from cheerful. If the federation or union is to be a reality and not a mockery, this attitude of the self-governing colonies towards non-white subjects of the Empire must undergo a material change. In view of this illiberal and selfish imperialism of the colonies one is inclined to despair of a genuine unity and believe in the prophecy that "the notion that the absence of any real strong identity of interest between the self-governing colonies and the more remote and more hazardous fringes of the Empire can be compensated by some general spirit of loyalty towards and pride in "the Empire," is a delusion which will speedily be dispelled."\* This may be true of "the more remote and more hazardous fringes of the Empire," but cer-

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\* "Imperialism," A Study by J. A. Hobson.

tainly not of India, the heart and the most invaluable asset of the Empire. But the colonial feeling is there and is the greatest impediment to an imperial union.

The attitude of India itself is simple and clear. Her attachment to the British Throne and the Empire is unquestioned and her aspiration to take its legitimate share of the rights and responsibilities of the Empire is being made a grievance against her educated people. They are conscious of the blessings conferred upon India by British rule and the opportunities presented to them of self-advancement. The spread of Western education has aroused in a large section of the Indian population high aspirations about its future. There are impatient idealists everywhere and India has its share of them. But India's ideal of becoming a self-governing element of the British Empire has now been definitely recognized and avowed by its responsible representatives, who hope one day, however distant the time may be, under British guidance, to reach that cherished goal. No one who knows the conditions of India would suggest that self-government should be immediately introduced here. But at the same time Indian public opinion does not subscribe to the view that India is constitutionally unfit for self-government and would never be in a position to rule herself. It desires that steady progress should be made by safe instalments towards the colonial ideal. While characterising the idea of transplanting British institutions wholesale into India 'as a fantastic and ludicrous dream,' and giving universal suffrage in India and

insisting "that India should be on the same footing as our self-governing colonies like Canada"\* as preposterous, Lord Morley did yet give us his famous reforms, which form an important instalment of constitutional rights. We cannot do better than quote here what the Hon'ble Mr. Gokhale said in this connection while addressing a British audience. He observed:—"The goal which the educated classes of India have in view is a position for their country in the Empire worthy of the self-respect of civilized people. They want their country to be a prosperous, self-governing, integral part of the Empire like the colonies, and not a mere poverty-stricken bureaucratically held possession of that Empire."† This statement admirably sums up the feelings of Indian people in the matter of the position they would desire to occupy in an imperial federation. Mr. Gokhale added that "of course, we recognize that the new self-government has to be on Western lines and therefore the steps by which the goal is reached, must necessarily be slow, as for the advance to be real, it must be from experiment to experiment only." In any project of an imperial union this sentiment will have to be taken into account and the consent of the Government of India and of the people of this country cannot be assumed as a matter of course or of no moment. We have shown above that the feeling in the colonies and in many quarters in the

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\* Morley's Indian Budget speech.

† The Hon'ble Mr. Gokhale's paper on self-government read before the East India Association.

mother country also is antagonistic to this view and until it undergoes the desired change no genuine imperial union or federation is conceivable. After all, such an organization must be based upon sentiment and enlightened self-interest in the component elements and an arrangement which appeals to neither, in India, is unthinkable.

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## II.

### AN IMPERIAL CUSTOMS UNION & TARIFF REFORM.

"If the British Empire is to be maintained it can only be upon the most absolute freedom, political and commercial; to deviate from the principle of freedom will be to weaken the ties and bonds which now hold it together."—Sir Wilfrid Laurier.

"It may be assumed that the true and loyal members of the Empire earnestly desire that the various sections of the Empire should be knit together in bonds of affection for mutual advantage and mutual defence, that ties should be strengthened and sentiments of brotherhood should grow and that every measure that can be devised which indubitably makes for the common good of all sections of the Empire should be adopted. But it would be fatal to all such hopes if the course adopted led to economic loss, to conflict of interests, to jealousies and animosities, to tariff wars only little less destructive to industry and well-being than actual warfare."—G. Armitage-Smith.

In his famous speech on conciliation with America, Burke, the greatest political philosopher of England, observed :—"My hold of the colonies is in the close affection which grows from common names, from kindred blood, from similar privileges, and equal protection. These are ties, which, though light as air, are as strong as links of iron." More than hundred and thirty-five years have elapsed since the fervid exhortation was addressed to a Parliament bent upon following an illiberal colonial policy and the world has moved faster than Burke could have imagined and yet the grand truth which shines out in the above words is as true to-day as when they were delivered. No doubt, the colonial



question now wears quite a different aspect but it has, by no means, become less complex or less serious. The difficulties in which it is involved may be gauged from the variety of views which British thinkers are seen to hold about it. In 1888, Mr. Bright remarked that "Imperial federation was in the air—but it was a dream and an absurdity." So late as 1896, Mr. Gladstone revealed his want of faith in the colonies by saying:—"I have always maintained that we are bound by ties of honour and conscience to our colonies. But the idea that the colonies add to the strength of the mother country, appears to me to be as dark a superstition as any that existed in the Middle Ages." This feeling is shared even to-day by some Englishmen and they are averse from any union with the colonies except that based upon common blood and common traditions. The idea of imperialism which is so rampant at the present moment in the West and which has caught hold even of the American imagination, which long professed to repudiate it, is obnoxious to these men. Lord Cromer\* has pointed out the contrast between ancient and modern Empires and there is very little in common between Roman and British colonies. Yet it is perhaps certain points in the imperial policy common to the two which makes one class of thinkers set their faces against imperialism. They may tolerate the despotic government of dependencies, which cannot be left to take care of themselves, but so far as the colonies are concerned,

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\* 'Ancient and Modern Imperialism' by the Earl of Cromer.

they would have nothing to do with them. Their ideal probably is that of the colonies of ancient Greece, which were politically independent of the mother country, and the only ties which bound them were those of kindred and religion. This is the spirit which animates an influential section of the British public. The British colonies to day are self-governing and practically independent. They have free institutions modelled upon those of the mother country and the fears entertained by anti-imperialists have apparently little justification. But the events of the last few years have invested the question of an imperial union with fresh importance, and we may take it, that barring few exceptions, people of all shades of opinion, are agreed that some steps must be taken to unite the colonies to the mother country in one way or another. The urgent need of unity being accepted, the question immediately arises, how is this object to be attained? And here we have serious differences of opinion. Various modes of operation have been proposed and some of them have embroiled the imperial problem in party politics.

One of the most prominent among these is the idea of an imperial federation to which we referred in the last chapter. However fascinating the idea may be, it seems to be impracticable. We have notable examples of modern federations in the United States of America and in the German Empire. But the physical, political and national features of these two differ so widely from those of the British Empire that there is no parallelism

between them. The first characteristic difference is that of compactness. The component parts of the British aggregation of states are widely scattered through the world while the states in the two federations stand close. Owing to the fact that the British colonies are situated in different places, their foreign relations have taken quite different turns. They cannot be reduced to a common denominator as would be necessary were they to become members of a federal constitution. In Germany and America the question of defence is common to all the integral states of the Empire. It is, again, a question if the scattered character of the British Empire is not a point in its favour. If it is attacked in one place by an enemy, the attack may be met by a counter attack elsewhere. A compact territory is at once endangered by a foe while dominions like those of the British Empire cannot, if the colonies remain independent. Secondly, the American and the German federations are animated by one common nationalism; while the British colonies, though they are the same kith and kin as the British people at home, have developed distinct types of nationalism. Especially is it so in Canada where the French element is yet very strong. The colonies have admitted European emigrants from all quarters and their racial community with Great Britain may be declared to be only nominal. This is why Mr. Chamberlain is anxious to bind the colonies to the mother country "before the growth of distinct national characteristics and divergent national interests has pro-

ceeded to such a point that what is now possible has for ever become impossible, and opportunities which are still within our grasp have finally passed away." The colonies have also developed their commerce and industries which they may not like to subject to a common federal control. These commercial interests in a federation are so strong and jealous that even in Germany certain states were reluctant to join the federation expressly on account of the injury which federal fiscal legislation was likely to do to them. In America too, the divergent interests of the individual states are found to conflict and the work of framing tariffs which will protect all interests concerned is not an easy one. The question of defence presents similar obstacles to a scheme of British federation. The case of Ireland closely knit to the United Kingdom and governed by the same Parliament for over a century is a warning against any such experiment. The fact is, and it is attested by numerous witnesses whose authority cannot be questioned, that the component parts of the Empire are tenacious of their separate nationalities and lives and they will little brook being swept into a union where they will be at the mercy of a common legislature in which their individualities are not likely to be respected. Having closely studied the colonial feeling in Canada and Australia on this subject, Mr. Richard Jebb \* concludes :—" In general it is clear that the union, if any must resemble an alliance of independent nations rather than a federation of scattered states,

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\* "Studies in Colonial Nationalism" by Richard Jebb.

inspired by the idea of a common nationality." Under the circumstances, it may be said, Mr. Bright was right when he declared that imperial federation was a dream and an absurdity and the last twenty-five years have made no change in the light of which that remark may be modified.

A political federation being thus impracticable, the next method of attaining imperial unity that is much talked of is a commercial union. So far back as in 1896, Mr. Joseph Chamberlain observed:—"The establishment of commercial union throughout the Empire, would only be the first step, but it would be the main step and the decisive step towards the realization of the most inspiring idea that has ever entered into the mind of British statesmen." Such a customs union, however, means a fundamental change in Great Britain's long cherished fiscal faith. Free trade has become a notorious fetish with the majority of British people and to ask them to recant their most revered doctrine is rather a large order. Hence the tariff reform question has raised a bitter controversy and has become the dominant issue in British party politics. A customs union may be devised in three ways. It may be based upon the existing British system of taxation. Under a free-trade tariff imports are free and when they are subjected to a duty such as tea, sugar and tobacco, it is done for the express purpose of raising revenue. If these duties are found to have a protective tendency the corresponding articles of home production have counter-

vailing duties levied upon them. Were this system of free imports extended to the colonies, they would have to renounce their protectionist policy, which they would on no account be willing to do. The colonies, especially Australia, are irreclaimably protectionist. They are slowly building up indigenous industries which cannot stand external competition which is sure to kill them. The conversion of the colonies to free trade is an impossibility and a customs union based upon free imports is consequently impracticable. Failing this we may have a zollverein of the German type which means free trade within the Empire and a common protective tariff against other nations. Here the protection which the colonies wish to have, at least so far as non-British states are concerned, is available and they may consent to allow British imports free into their territories. But this system entails upon the United Kingdom the obligation to levy import duties upon foreign articles and thus to révert to a policy of restricted trade and protection. There is a third course that may be followed and it stands midway between the two above suggested. The various members of the Empire are to levy differential duties on foreign goods and make concessions to one another. This course rests upon the adoption by Great Britain of a protectionist policy in a modified form. All the three courses involve a change of fiscal policy and the last, though to a smaller extent than the first two, raises many important issues. Imperialists among free traders maintain that a system of Imperial preference far from

making for unity and prosperity, will only lead to economic loss, to conflict of interests, to jealousies and animosities and to destructive tariff wars and that "the proposition that any form of zollverein (offensive and defensive as regards other countries) will advance this feeling and promote the industrial prosperity of all parts of the Empire is purely hypothetical and is unsupported by anything of the nature of scientific proof."\*

Many of those who do not see eye to eye with the advocates of imperial preference and yet ardently wish for a United Empire, argue that the desired unity can be attained without quarrelling about tariffs. Thus Mr. Geo. R. Parkin† puts defence in the forefront of the objects to be aimed at in any arrangements that may be devised for imperial solidarity. He is of opinion that without trade advantage between its parts there are decisive reasons why the nation should present a united front to the world. Unity is essential to safety and at any moment the out-break of a great war may make safe trade of more vital importance than either free trade or trade depending on tariffs. While therefore a common system of defence seems of itself a sufficient justification for close political union, Mr. Parkin is constrained to admit that in any attempt at federal organization, it would

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\* "The Free trade movement and its results," by G. Armitage-Smith.

† Imperial Federation by Geo. R. Parkin in 'Empire and the Century.'

probably at first be necessary to leave to each community the choice of the method by which its revenues are raised. The free trader fights the advocate of preferential tariffs within the limits of the Empire with the weapon of freedom of action. He appeals to history and points to the wrecks of states which tried to maintain over-sea Empires based on exclusive trading and perished largely owing to exclusiveness which arouses suspicion and jealousy. The success of the British nation in keeping together an extensive and prosperous Empire is explained by the British policy of allowing the colonies to manage their own fiscal affairs without restriction and giving them just as good treatment in the home market when they tax British products as when they do not. Had it not been for the system of free trade the Empire could not have been built up and maintained. "There is not only no antagonism but an essential connection between a sound and reasonable imperial policy and the policy of free trade."\* The free trader's imperial creed is put thus. "We will neither tax our colonies for our benefit nor tax ourselves in the vain hope of benefiting them thereby. What we will do is to insist that the tie which united us in one mighty state shall be the tie of freedom—freedom political and commercial."\* We thus come back to the imperial colonial policy of absolute freedom endorsed by the Canadian Liberal statesman, Sir Wilfrid Laurier, quoted at the top of this chapter. Two classes of politicians and economists

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\* 'Free Trade and the Empire' by J. St. Loe Strachey.



wishing to reach the same destination *viz.*, a united and strong Empire, are here seen to pursue two diametrically opposite paths. The two patriotic physicians differ so widely that what one prescribes as a tonic, the other condemns as poison.

Well, says the supporter of preferential tariffs, fiscal liberty and non-interference with colonial politics are all right and coercion and restriction are deservedly condemned. The latter were, in fact, exploded long ago. We are not asking you to inflict a particular tariff policy upon the colonies. Far from it. Our oversea kinsmen are knocking at our doors. They offer you trade concessions. Will you not reciprocate them? You invite the colonial premiers to your counsels and refuse to listen to their patriotic proposals. By giving them the cold shoulder you are sure to drive them into the arms of foreign nations and thereby materially to weaken the Empire whose interests you profess to have at heart. This sally apparently exposes the most vulnerable point in the imperialist free trader's armour but he smiles a philosophical smile withering in its grim stoicity, under the cannonade and by way of reply points to his political and economic doctrines which do not permit the least interference with freedom, colonial and commercial. Under all circumstances free-trade conduces to the good of nations and Empires and the slightest deviation therefrom brings on loss. Like water trade finds its level and to obstruct its natural flow is economically harmful. But coming to close quarters the free trader does not rest his case only on

the ground of theory. He is ready to meet his opponent on the field of practical considerations. Supposing, for the sake of argument, says he, that the mother country admits colonial produce duty free and imposes high duties on foreign corn, articles of food and manufactures. Are the colonies in a position to supply all the requirements of Great Britain so that that country may run the risk of foreign retaliation? The British Possessions provide only a small fraction of the total imports of corn and raw materials as will be seen from the following figures:—

Imports into the United Kingdom of Food, Drink and Tobacco for 1908:—

### I.

From Foreign countries	British Possessions and Protectorates	Total
£190,797,218	£53,336,871	£244,134,089

### II.

Imports into the United Kingdom of raw materials and articles mainly unmanufactured for 1908:—

From Foreign countries	From British Possessions and Protectorates	Total
£145,548,339	£57,906,678	£203,455,017

### III.

Exports from the United Kingdom of manufactured articles for 1908:—

To Foreign countries	To British Possessions	Total
£185,202,203	£111,753,113	£296,955,316

The cotton textile industry is the most valuable of the British industries. The raw material for this industry has to be imported from the United States. Vigorous efforts are being made by the British Cotton Growing Association to cultivate cotton in Africa and elsewhere and thus to release England from the thralldom of the precarious foreign supply. Years and years must, however, elapse before the British Empire will be in a position to grow sufficient quantities of the staple of the required quality. If the United States were to retaliate, the consequences to the English textile industry will be disastrous. The position of the industry may be grasped from the following figures :—

Imports of Raw Cotton into the United Kingdom for 1908.

From Foreign countries	From British Possessions	Total
Lbs. 1,982,032,528	Lbs. 78,664,208	Lbs. 2,060,696,736

The average amount of the production of cotton-yarns and goods for 1906, 1907 and 1908 exceeded £125 million and out of this £100 worth was exported. The imports of cotton productions into British dominions, colonies and dependencies, beyond the seas in 1907, were valued at £49 million. Of this total nearly £43 million worth were sent from the United Kingdom. The total exports for 1907, were valued at £110 millions. Out of this £67 millions worth was taken by foreign countries. It will be unwise to risk retaliation upon so much trade for the paltry gain of

6 millions that may possibly be made owing to an increase in the exports to British Possessions.

The enhanced colonial demand for British manufactures will not in any way compensate for the loss which imperial preference is sure to entail. Then again, it must not be forgotten that the colonies have their own manufactures to promote and they will, of course, insist upon their new indigenous industries being maintained. Thus, the adoption of a preferential tariff by Great Britain is calculated to give rise to jealousies and discontent and are no good either to the colonies or the Mother country. "The proposal for commercial federation is an appeal to the business instincts *i. e.*, self-interest and not to human sentiment; it ignores the real bond of sympathy between Great Britain and the colonies and proposes to build on a foundation of economic interest.\*"

The movement for a customs union as a remedy for consolidating and strengthening the Empire has, running parallel to it, another, intended to arrest the alleged steady decay of the industries of England. Ever since the year 1846, when free trade became the avowed policy of Great Britain, a section of the people there has been worshipping in the shrine of protection. So long as British industries continued to flourish under free trade, and her imports and exports increased, the protectionists were neither strong in numbers nor loud in their declamations against the policy of free

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\* "The Free Trade movement and its Results," by G. Armitage-Smith.

imports. The general belief was that free trade was the only sound fiscal system for every country to follow and that other nations would imitate the example of Britain. But almost simultaneously France, Germany, America and other countries resorted to protection and behind high tariff walls their industries steadily advanced. British colonies too became the staunchest adherents of Protection. English industrial and commercial prosperity was based upon strong foundations, England having had a long start over other nations. With new additions of territory and the opening of fresh markets British manufactures had extensive openings and the supply of food and raw material was cheap and ample. The foreign competitors, however, entrenched behind tariff walls, would not allow England to maintain her old monopoly and their industrial progress began to tell upon her, howsoever slightly. Her position is even now so strong that supposing she does not adapt herself to the altered circumstances and keeps in the old grooves, it will take years and years before her industrial supremacy is appreciably shaken. But the British protectionists took alarm at the encroachments of England's rivals upon her monopoly. They attributed every social evil to free trade and the protectionist propaganda commenced. Tariff reform became the watchword of a party and was the principal issue on which the General Election which sent the Liberals to power in 1906, was fought out. Mr. Joseph Chamberlain was the soul of this movement and before eagerly listening audiences he told harrowing tales of

England's industrial ruin, and of the destitution and misery of the labouring classes, the result of England's persistence in the folly of free imports. He instituted a private commission to inquire into the economic condition of Great Britain compared with that of the protectionist countries and the results of the inquiry were published in tariff reform blue books. They are full of a wealth of statistical information though the conclusions drawn from the facts and figures are often wrong and misleading. In the opinion of tariff reformers the results of the inquiry more than justified their contention that free trade was wrong and protection urgently called for as the fiscal policy of Great Britain. In the press and on the platform, every blessing is anticipated in the train of protective tariffs. Employment, high wages, growing revenue, increased national wealth, and prosperous industries are some of the advantages that, it is said, will flow from the fiscal conversion of Britain. The tariff reform position is thus summed up in a pamphlet :—"Times have changed. Great Britain is no longer the workshop of the world. She is not even the workshop of Europe, for Germany has taken that place. It is untrue that free trade gave us our industrial supremacy. It would be more correct to say that during the free trade period Great Britain has lost her ancient industrial supremacy which she had acquired during two centuries of protection."

In his famous speech delivered at Glasgow in 1903, Mr. Chamberlain outlined his plan of tariff

reform for the United Kingdom. He proposed to put a duty on foreign corn and flour and on meat and dairy produce. Foreign manufactured goods were to be penalised by a higher duty of 10 per cent. There were to be remissions of duty on British tea, sugar, coffee and cocoa. The following resolutions passed by a majority of the London Chamber of Commerce in March 1907, states the two main objects of tariff reform :—"This meeting of the London Chamber of Commerce is of opinion that the present fiscal system is no longer suited to the needs of the country, and that it should be altered in such a manner as will enable us, first, to promote the commercial union of the Empire on a preferential basis; and second to raise a proportion of our revenue from the imports of foreign manufactures, which will tend to safeguard our industries from the unfair competition of foreign countries." The tariff reformer thus seeks to foster British industries and at the same time to draw the colonies closer to the mother country. With its variety of soil and climate and the vastness of its area and population, it is affirmed, the British Empire will supply all the food and raw materials which the United Kingdom wants and the latter can find ample markets for its manufactures in the British possessions beyond the seas. The Empire being in this way, self-sufficing, no retaliation injurious to its interests need be apprehended from foreign countries. A customs union as outlined above to be successful must have a central power with authority to compel obedience of the members. Such a federation we have shown

to be impracticable. To-day the colonies are willing to give preferences to the Mother country, but a conflict of interests may bring about a change of mood. They will not like always to produce raw materials and will have their own manufactures. They may come to feel that the arrangement solely tends to the good of Great Britain and affects their interests injuriously. The advocates of imperial preference have two strings to their bow. On the one hand they appeal to the self-interest of the Britisher that he will be better off, his industries will prosper and his wages increase by the free markets he will secure in the colonies; and on the other, they speak in a higher key about imperial patriotism, racial unity and ties of kindred. They forget that the self-governing colonies will, under their system, soon refuse to be reduced to the condition of producers of food-grains and raw materials and that the customs union will degenerate into the old, selfish imperial domination which the American colonies threw off. While Liberal free traders gratefully acknowledge the benefit which colonial preferences have done to British trade, they are not prepared to make a departure from their policy of free imports. Speaking at the Imperial Conference of 1907, Mr. Asquith said:—“As regards the Canadian Tariff, I acknowledge that it has been beneficial to British trade, and particularly, I think, to our textile industries.” Preferential trade within the Empire is sought because it supplies a weapon for retaliation against foreign protectionist nations and for fighting with American trusts and



German combinations besides enabling Great Britain to support its industries against foreign competition.\* The different component parts of the Empire are however at different stages of economic development and one uniform fiscal and financial policy is not suitable to them all. An imperial customs union, therefore, appears to be no solution of the problem. Imperial unity so desirable from every point of view, must be achieved in some other way. Mr. Root remarks\* :—" But the lesson apparently has not yet been fully learned that the trade policy which best assures the prosperity of each component part of the British Empire will prove in the long run, best for it as a whole." Such a policy of individual fiscal freedom is not inconsistent with the consolidation of the Empire. In November last Mr. Asquith made an interesting pronouncement upon this subject. In his speech at the Guildhall banquet he observed :—" For the first time representatives of the Great Dominions were admitted into full confidence regarding the aims and methods of our foreign policy and having surveyed together the strategic aspects of the Empire we were able to come to a complete agreement concerning the reciprocal parts we were to take in its naval and military defence. The proceedings of the Conference mark a significant advance *in the policy of co-operation without centralization* which is growingly recognised to be the best *safeguard* of our *Imperial unity and strength*."

India has no will of her own. Not even the Gov-

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\* "Problems of Empire" by Hon'ble T. A. Brassey.

ernment of India has an independent mind. Its policy is dictated from without and above. The self-governing colonies have evolved their own fiscal systems best suited to their conditions. In this country we have things not because we think them best for us but because the Parliament, the party in power there, feels that they are the most suitable, our views notwithstanding. It is well known that free trade has killed or assisted to kill our national industries and is a stumbling block in the path of our industrial progress. But the cotton excise duties were imposed upon us in our own interests which, we are told, we do not understand. If England gives up free trade and becomes protectionist, we shall follow suit. But the protection will be of a kind and degree which Parliament decrees, unmindful of Indian public opinion. We are not unqualified supporters of the extreme argument of "the man on the spot," and believe that efficient Parliamentary supervision and control are indispensable. But none would approve of the overriding of the opinion of the Indian Government and the public by the Secretary of State from a distance of six thousand miles, as Lord Morley recently did in the case of the department of industries and commerce in Madras. Even with the enlarged Councils, Indian public opinion cannot make any contribution to the moulding of India's financial and fiscal policy. Under the circumstances, it will be a mockery to speak of India's fiscal concessions which will not be voluntary but enforced. So long as the Government of India

is not allowed, under reasonable restraints, to follow a course which believes is calculated best to further the interests of this country, it is useless to make this dependency a member of an imperial customs union. There are classes of people in England who still look upon India as a mere plantation in the old sense of the word. "To give Great Britain, under such circumstances, the control over Indian foreign trade and internal industry that would be secured by a common tariff, would be an unpardonable iniquity."\* Mr. Root pertinently asks:—"Can it be conceived that were India's fiscal arrangements placed to any considerable extent under the control of British legislators, they would not be regulated with an eye to British interests? Intense jealousy of India is constantly cropping up in everything affecting fiscal or industrial legislation and no Factory Act can be introduced there which does not induce sharp criticism and the demand that it shall be made as stringent as possible in the interests less of the native operative than of the British manufacturer." It may be said that the present policy of free trade has proved disastrous to Indian industries and requires to be changed. This may be true but at least it is a negative evil; the proposed preferential tariffs will be a positive evil. Free trade does not allow the promotion of indigenous industries under the fostering care of the state; a customs union will permanently consign the country to the status of a purely agricultural country. Without going into the

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\* 'The Trade Relations of the British Empire' by J. W. Root.

details of the comparative advantage or disadvantage of the two systems it may be said that the inclusion of India in the imperial customs union cannot be welcomed as a change in the right direction. What the leading supporters of preferential tariffs have said upon the Indian aspect of the question, only goes to confirm the apprehensions entertained in this country. And we must remark, in conclusion, that any scheme that brings India within the circle of a so-called imperial tariff must be to its detriment rather than its benefit.

### III

#### THE PRESENT ECONOMIC CONDITION OF INDIA.\*

In the paper, which I read last year before the Madras Session of the Industrial Conference, entitled "Twenty-five years' Survey of Indian Industries," I attempted to form an estimate of the progress we have made during the last twenty-five years in the industrial field and tried to direct attention to certain industries, which await development. I propose, in this paper to take a rapid survey of the general economic situation in India at the present day, to determine what stage we have reached in economic growth and indicate the directions in which further effort has to be made. Last year I quoted facts and figures to show that from being merely a rural country with its vast population subsisting mainly on agriculture and the production of raw materials, India is slowly but surely taking to manufactures on modern lines. Various causes have contributed to bring about this welcome result. The rapid rise of Japan from a backward country like India to a position of eminence in commerce and industry, the comparative helplessness and poverty to which this country seemed to be reduced, and a close study of the industrial history of England, and especially of America and Germany, gave rise to a

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\* Paper submitted to the Indian Industrial Conference, Lahore, 1909.

conviction in the mind of people here, that the salvation of this land lay entirely in its industrial regeneration and development. It was felt as an irony of fate that while other nations with a smaller population and with a scanty supply of raw materials, which they had to import from outside, were dumping their manufactured goods on the Indian market, and thus growing fat on the gains made by commerce and industry, India, which at one time supplied the people of Europe with its far famed shawls, carpets and cotton fabrics and exported large quantities of other articles of manufacture to foreign lands, should be reduced to the condition of a helpless customer for other people's goods. Memories of past prosperity and despair of the future combined to nerve men to a resolution to do something to re-occupy the ground which was fast slipping from under their feet. But in these times of mechanical inventions and scientific progress, it is easier to talk about industrial regeneration and development than actually to move an inch in the desired direction, especially in a country like ours, full of ignorance, conservatism and poverty. The conviction had, however, gained ground that the history of industrially advanced countries of the West might repeat itself here and that a sympathetic Government and a people awakened to a sense of their duty to themselves, might co-operate to place India on the path of speedy advancement. Though Government have been doing much latterly to assist the growth of indigenous

industries it will not be ungenerous or unjust to say that they have not been able, owing to their peculiar situation, to do what other states have done for their people. The Free Trade policy of England, the old attitude of people there towards "plantations" and dependencies, still survives, and it is no wonder, if India is by many looked upon as a rich field for the exploitation of European capitalists and manufacturers. In determining the place of India in the British Empire, it is usual to put the commercial and the monetary advantage derived therefrom in the forefront. Though people in India have been roused to a sense of the grave economic situation of the country and are straining every flabby nerve of theirs to flog the dead and dying industries into life, they cannot be unaware of the stupendous task that lies before them. The whole world around them armed with the most modern and scientific processes of manufacture, with enormous quantities of capital to finance industries, fortified with high protective tariffs, and ever ready and able to take the least advantage that may offer itself, is a giant competitor, with which this pigmy people with little capital, no scientific and technical knowledge and no protection for industries, has to wrestle, and one may imagine what the issue of the contest is likely to be. The situation is indeed so gloomy that one is tempted, through sheer despair, to give up everything for lost. A mighty economic revolution has been slowly working in the land doing havoc with the time-honoured old order of things.

The very foundations are being undermined and their tenacity is giving way to new forces. There is underpinning going on here and there, and new foundations are being laid in places on which a new structure is to be reared. But, for the time, the old ruins distress the eye more glaringly than do the new works greet the sight. Like England and other countries, India has been a land of domestic industries, all of which have either crumbled to dust or are fast falling to pieces. The hand-loom weaving industry is almost gone—past recall, and the attempts to prop it up by means of improved crutches are not likely to be much of a success. The same dismal fate has overtaken other industries which at one time were so flourishing. Old industries, connected with sugar, paper, glass, silk, iron,—where are they? Almost all of them killed or in the process of being killed by foreign competition broad-based on modern appliances and up-to-date methods. Other nations, which have had a start over us, have occupied entrenched positions from which they look down complacently on us ineffectually toiling below. Latest methods and machinery, which modern science can devise, have long been in use there, and every day improvements are made therein which leave us still further in the back-ground. Hardly do we think of adopting a new process in manufacture, when we hear that in the go-ahead nations of the West, it has been already replaced by another still more economical and remunerative. We started paper-mills on modern lines and for the first few years we competed



successfully with the foreign article. But soon wood pulp began to be utilised in the manufacture of paper in Western countries and our indigenous industry carried on on the old elementary primer formula, that paper is made of rags and straw, began to decline. The imports of paper and paste-board into India were valued at some  $44\frac{1}{2}$  crores of rupees, the average of the 3 years, 1890-91 to 1892-93. They continuously declined during the next seven or eight years till in the triennium ending in 1898-99 the figure came to  $36\frac{1}{2}$  lacs. This decline in the imports of foreign paper is explained by the successful competition of the indigenous paper mills. But from the years 1900 an upward tendency became visible, and the imports increased, till at last in 1907-08 they were valued at about one crore. From the year 1901 the Indian mills could not hold their ground against the foreign competition which was assisted by wood pulp. The history of the sugar industry has the same dismal tale to tell. We have got a few sugar factories and refineries and new ones on modern lines are also being started. But we are told that unless we adopt the central factory system, which has proved such a success in Mauritius and Formosa, our prospects must be anything but cheerful. The general impression that a study of the indigenous industries, old and new, leaves on one's mind is, to put it briefly, that it is an unequal fight in which we are engaged. But fight we must. The cessation of efforts would be suicidal. I am not a pessimist and hold that we are slowly but

steadily progressing. But we have got to realise what is exactly the situation in which we are placed and what is the nature and extent of the obstacles we have to surmount. An easy-going optimism is not better than a despairing pessimism. The situation must be rightly understood before we essay to face the odds that are against us. And however gloomy the prospect, we must work with a singleness of purpose and a firm faith in our destiny.

The decay of old industries has thrown thousands of artisans and craftsmen out of work. Some new industries have been and are being started, but they cannot provide work to the unemployed. The period of an industrial revolution or transition is always a time of distress. People are swept off their old moorings and drift aimlessly along the hard times without support. No doubt, labour is in great demand just at present, and whatever of it is available in the various industries, is well paid. Prices have risen and along with them wages. It is a remarkable feature of the present economic situation that manual labour of every kind fetches very high wages and a common cooly or cook is better paid than a clerk. But domestic industries having disappeared, and the centres of industry having shifted, the lack-works accustomed to their old environments and attached to their old localities, do not easily migrate to places where labour is in great request. It is well-known that man is of all baggages the most difficult to move, and it is not very easy for people to reconcile themselves to a

change of environment and employment. When the period of transition is over, things will soon adjust themselves, but, for the time being, there will be distress and hardship which can only be relieved by a further expansion of trade and industries. I have said above that the development of indigenous industries and the attainment of wealth and prosperity by their means, has become the settled ambition of the people of this country. But it may be asked if the establishment of national industries is such a difficult job as already described, why waste efforts upon it? India is essentially an agricultural country, with three-fourths of its people living upon agriculture alone. Devote all your energies to its improvement; develop it to the highest degree attainable. Leave other countries which have already occupied an impregnable position in manufacturing activities, to that business. They will require food, they will want raw materials, and must look up to you for the supply of the same. For instance, England must have cotton for her mills and wheat for her belly and must import them from outside. The very rumour that the supply of American wheat was inadequate and that it was being cornered by Mr. Patten made the heart of England flutter with anxiety and suspense. A similar rumour with regard to cotton sent a shiver into the manufacturing centres of that country, and short work was at once resolved upon in the cotton mills. India has thus a splendid opportunity of becoming an indispensable feeder of manufacturing countries and can occupy

the same vantage ground in the production of food and raw materials as they occupy in manufactures. Those who have an intimate knowledge of the social and economic condition of the West tell us that even there there is now a reaction against city life, full of hurry and bustle, smoke and squalour, wretchedness and poverty, which come in the train of the modern factory system, and that "Back to land" is the cry often heard at present in some of those countries. A warning is given to us and we are advised to think seriously before we plunge headlong into the life of manufacturing nations on modern lines. India has been, from time out of mind, a happy land of village communities and republics, leading the life of Arcadian simplicity, and its adoption of Western methods must bring upon it all the evils of industrialism, the over-crowded cities with their few millionaires and myriads of toiling work-people, the struggles between the employers and the employees, with their problems of unemployment, old age pensions, Poor Laws, Factory Legislation and Socialism. Sir George Birdwood in one of his speeches asked the other day, "Is Europe going to make Asia an East End?" The gruesome picture often presented to us of European industrialism is such as to make us pause and think. But we who know India, know that Arcadian simplicity and rural bliss are now things of the past among us, to be found henceforth only in Utopias or the day dreams of the poet. Japan, a country of the Orient, has shaken off its old garb and put on a Western raiment. Even the sleepy Celestial

Empire has been awakened from its slumber of ages and is going in for European civilisation. The countries of what is called the Middle East are slowly preparing to follow. Can India be a solitary exception? Of course, not. Our lot has been thrown in with the greatest of the nations of the earth. Our contact with England, the peace she has given to this country and the other blessings she has brought us here have already changed the face of Indian society. Our hopes, our aspirations, to take our proper rank among the nations of the world, have once for all fixed the lines of our march and there is no returning or lagging behind. We may indeed try, if possible, to avoid the evils that have been disgracing industrialism in the West. But we cannot remain where we were or what we are. We must advance, we must imitate, we must assimilate.

Many friends of India, taking a deep interest in the well-being of its people, hold that instead of frittering away their energies on the pursuit of manufactures, success in which is doubtful, and even if attained, would entail a heavy price, Indians should devote their energies to the development of agriculture, the premier industry of the land, which, on account of its supreme importance needs all the attention that can be paid to it. H. E. Sir George Clarke, the popular Governor of Bombay, seems to share this view. In a speech that His Excellency made at the time of opening the Agricultural Conference recently held in Poona,—a speech which furnishes much food for reflec-

tion to the Indian mind—he made a pointed reference to this subject. One of the points emphasised by His Excellency was that agriculture is and must remain by far the most important of all Indian industries and an essential basis of India's prosperity. The argument may be thus briefly summarised. India's increasing millions will have to be fed and a point may be reached when the growth of other staples will have to be checked unless the production of the necessities of life can be increased. European countries are becoming more and more dependent for their food supply. India not only feeds herself but derives a large share of income from the produce of land. It is supremely important, therefore, that this position should be maintained. A sudden expansion of manufactures on a large scale would be disadvantageous. There is already a shortage of labour in certain localities and a further demand upon it would deplete the numbers required for the vital interests of agriculture. A rapid transference of country-dwellers to town-life would be an evil. The foreign demand for the produce of land must not be lost. Some of the important points contained in the above have been already dealt with. It remains to determine exactly what should be our attitude towards agriculture and manufactures. Here we have to bear in mind three important facts. A majority of Indian population subsists on agriculture. Nearly three-fourths of our exports consist of land produce. And Indian agriculture is in a most backward condition. The more advanced nations have come to apply up-to-date

methods and scientific processes to all agricultural operations and the production of the fruits of the earth per acre is much larger in other countries than in India. The development of agriculture is therefore a very important direction in which we must make serious efforts, if not for the purpose of increased exports of food and raw materials, at least for the sake of meeting the growing demand for the same in the country itself. One of the causes that have been assigned for the high prices of food grains prevailing at present is that the production of these grains has not been keeping pace with the increasing demand for them. Again, agricultural improvement is essential for the growth of the manufacturing industry. Let us take the sugar industry as an illustration. In spite of the frantic efforts latterly made to check the imports and consumption of foreign sugar by all available means, the country's sugar bill is every day going up by leaps and bounds. Last year, our imports of foreign sugar were valued at nearly eleven crores of rupees, which means an increase of 100 per cent. in less than ten years. Now one of the causes that hamper the indigenous sugar industry is the poor outturn of raw sugar per acre, which is more than three times as small as that elsewhere. To come in a line with Mauritius, Java and other places in this respect means agricultural improvement, the use of scientific processes in the cultivation of sugarcane, better manures and up-to-date methods all round. The textile industry is making a commendable progress, but we want cotton of a finer

quality to be produced in the country and this also points to improvements in agriculture. Our tobacco industry is also handicapped by the poor quality of the stuff we produce. The same remark applies to other agricultural products and industries depending upon agriculture. Here then is a vast field for work. The greater the value we may coax mother earth into yielding to us, the better will it be for the poor cultivators and the country generally. The spread of primary education, the establishment of co-operative societies and agricultural banks, the diffusion of useful information regarding improved methods among the ignorant peasants, the supply of better manures and more extended irrigation works, are the directions in which effort has to be made, and we must congratulate Government on the particular attention that is being paid to this subject, and the special endeavours that are being made by the Agricultural Departments in the various provinces in this behalf. Educated people and Jamindars must co-operate with Government in this matter and not leave the poor and ignorant ryot to his own crude efforts.

Admitting then the supreme importance of the Agricultural industry and the infinite scope that there is for its development and the growth of the industries dependent thereon, one may ask, can we not attempt the pursuit of manufactures at the same time? Shall we follow agriculture to the exclusion of other industries? The idea of confining our attention exclusively or more prominently to agriculture militates against the



present mood of the people and runs counter to their most cherished ambition. They aspire to make India a manufacturing country, not entirely so like England but it seems to be their determined attitude to attain a position of some importance in that line consistently with the maintenance of agriculture. There is no reason to suppose that this is an impracticable or unprofitable ideal. To-day there may be a shortage of labour in certain localities, the centres of manufacturing activity. But the vast and increasing population of the country may be relied upon for an adequate supply of labour for new industries that may be started and we need not cripple agriculture by drawing off labourers working in it. The pressure of the population upon the soil is so great and the openings so few that with almost all the professions overcrowded and no scope in industry and commerce, agriculture and Government or private service are the only refuge of the unemployed. Far from agriculture requiring all the available labour, the Famine Commission has recorded its opinion that the poverty of the people and the risks to which they are exposed in seasons of scarcity are mainly accounted for by the fact that unfortunately agriculture forms almost the sole occupation of the mass of the population, and one of the remedies to meet this evil effectively must be the introduction of a diversity of occupation, through which the surplus population may be drawn from agricultural pursuits and led to find their means of subsistence in manufactures or some such employment.

Inland and overland emigration have been proposed as measures of relief to this congestion of population in agriculture, and thousands of Indian coolies have found their way to Mauritius, South Africa and other places, to work there on plantations and in mines as ordinary labourers and in some cases as carpenters, masons, gardeners and so forth. I need not here allude to the treatment that these Indian emigrants receive in their temporary foreign homes. My point in alluding to this subject is to show that there is an inexhaustible supply of labour in the country and if it is properly recruited and trained, it will be available to satisfy the demand of all the industries we may start or expand. In fact, from inquiries made in the United Provinces and Bengal regarding the supply of industrial labour, it has been discovered that there is no real deficiency in the amount of labour potentially available, and it is reported that no difficulty need be anticipated on that score. We shall also be indirectly relieving the pressure of population and guarding against poverty and distress if new industries provide work for people now solely dependent upon agriculture. As manufactures steadily advance, people will take kindly to the new system that is slowly coming into vogue.

It has been remarked with some amount of truth that the commerce of India in pre-British times was mere bagatelle in comparison with what has been developed in our own times. A glance at the figures of annual exports and imports is sufficient to prove this. The establishment of peace, the spread of railways, the

post and the telegraph, which have linked together not only the distant parts of the country but the various countries of the world to one another, have led to the development of an enormous international trade. Formerly the country was self-sufficient; it supplied almost all its wants and those of other countries also. Now it cannot remain isolated and self-satisfied. New tastes and habits have created a demand for many foreign articles and the decay of our old industries has forced us to look to other countries for the supply of articles which were at one time our own proud monopoly. Though we need not and cannot hope to be self-reliant in the matter of every article among our imports, we may surely aspire to supply some of our main wants by indigenous manufactures by giving a new lease of life to old industries and starting new ones. Thus in the matter of cloth, sugar, paper, tobacco, oils, leather, matches, glass, silk, wool and other industries, large and small, we have infinite scope. Instead of sending all our raw materials to foreign countries to be manufactured there, and returned to us as finished articles, we may be able to manufacture our own goods and pocket all the profit that goes at present to other people. The success of the cotton industry and its ever increasing prosperity are there to guide and cheer us, and though it may take us years and years to reach the goal, a beginning, however small, must be made in time. By manufacturing locally articles for which we enjoy special facilities, and exchanging them for such as we cannot make with advantage, we shall profit our-

selves and contribute an economic gain to the world. We cannot any more allow ourselves to be charged with foolishly remaining idle while we have abundance of natural wealth under our feet and all around us.

But our difficulties? Well, they are many, and I have indicated some of them above. The first and the foremost is that about capital. In spite of the fabulous hoards, which are said to be lying idle and useless, it has to be admitted that there is no capital in this country, adequate to the financing of the larger industries on the starting of which the heart of people is set. The word 'poverty' is writ large on the face of the country and it is superfluous to prove what is patent. The new spirit of self-help and self-improvement that is abroad, and the general desire to promote the economic growth of the country, that is visible on all hands, are slowly inducing what little capital there may be to come out of strong boxes and run into more useful channels. We learn from the latest report on Joint Stock Companies registered in India, that during the year 1907-08, 269 of these concerns were started with a nominal capital amounting to some 16 crores and that in that year there was a net increase of 139 in the number of companies with an increase of 13 crores in the nominal and of 6 crores in the paid up capital of the same. At the close of 1907-08 the working companies had paid up capital of the amount of 50 crores, an increase of  $6\frac{1}{2}$  crores over the year previous. During the last decade the increase in the paid up capital has been 45.9 per cent. These

figures make it evident that Indian capital is slowly leaving its shyness and is being induced to come out in dribblets. The indigenous insurance companies, banking firms, glass works, sugar factories, cotton and oil mills, match, soap and cap factories and other manufacturing concerns that are being started in various parts of the country, point in the same direction. There is a steady improvement in the economic condition and the next generation will see an industrial progress which the last whole century could not bring about. But the figures of export and production values that are usually quoted to illustrate the industrial prosperity of India, do not reflect the true state of things. The growth of tea and coffee plantations, of coal and gold mines, of jute factories, of the kerosine oil industry and of industries concerned with minerals generally, which has been very remarkable during the last few years is no compliment to Indian capital, Indian talent or Indian enterprise. Excepting the cotton industry, which is mostly in the hands of Indians and is worked with Indian capital, almost all the so-called indigenous industries, which are taken to estimate the industrial development of India, are not indigenous in the real sense of the word. Most of these are worked with European capital and by European agency. The only profit that India makes from them is the wages which the labourers engaged in them get for their manual labour. Take the tea industry for example. The total area under cultivation increased from 540,533 acres in 1907 to 548,127 acres in 1908 and the total number

of plantations from 5811 to 5839. The total production of tea was some 247 million pounds, of which about 234 millions valued at 10·39 crores of rupees were exported ; which seems to be the highest figure on record. The industry employed more than five lacs of labourers, being an increase of 30 thousand over the previous year. The capital of the Joint Stock Companies engaged in the production of tea amounts to nearly Rs 24 crores, *viz.*, companies registered in India Rs. 3·36 crores, companies registered in London Rs 20·22 crores. Now here is an important industry carried on in India, employing five lakhs of men and with a capital of 24 crores, an industry bigger than even the cotton industry. But the most remarkable thing about it is that it is almost wholly controlled by Europeans and nearly 83 per cent. of its capital comes from companies registered in London. There were in 1907-08 some 50 jute mills in India employing 188,000 persons. The paid up capital of 49 of these was £8,664,000. In 1908-09 the exports of raw jute were estimated at about 20 crores of rupees while jute manufactures were exported to the value of 15½ crores. The whole of this important industry is in the hands of non-Indians. The same remark applies to the out-put of Indian minerals, the total value of which raised during 1908 was returned as £ 7,823,745 against £ 7,079,708 in 1907, an increase of 10·5 per cent. In his Presidential address at the Madras Conference, Rao Bahadur Mudholkar adverted to this feature of India's industrial development and showed how the precious resources of the country are

being exploited by outsiders, while we are getting only the wages for Indian labour employed to raise the minerals. Not one of the gold-mining companies is Indian, and the value of the gold produced last year was more than 3 crores. All the profit made in this industry, goes clean out of the country. On account of their scientific knowledge, long experience and enormous capital, foreigners can easily take advantage of the many natural facilities, which India offers and the children of the soil have only to look at them with despair. The fault is partly ours in as much as we do not possess the necessary enterprise and knowledge, and cannot command the requisite capital. How can a backward people labouring under every disadvantage be expected all at once to be ready to compete with the fully equipped foreign exploiter? Of what earthly use is it to the Indians,—taking the word in its widest significance—if millions of pounds worth of minerals are annually extracted out of the soil and carried away without giving them any moral or material gain? We cannot certainly be expected to congratulate ourselves on the growth and prosperity of industries in which our only gain is wages of labour of the lowest kind. Such industries are Swadeshi by courtesy. The whole question is rather a ticklish one and Government is perhaps helpless in the matter. But so are people too and more so than Government. Rao Bahadur Mudholkar was handled rather roughly by certain critics for his unpalatable but true remarks on the point. As he said, this is not

a question of race or creed ; it is a question in which the most vital national interests are at stake, and as trustees of those interests, the Indian Government have a duty to perform by the people. The conservation of the natural resources of this country is the first duty of a paternal Government such as our British Rulers ought to show themselves. The Geological Department is making a survey of the whole country and publishing useful information as to the openings there are for capital and enterprise. But we are not in a position to profit by it. It is therefore necessary that larger numbers of Indian students must receive instruction in mining and metallurgy, licenses and mining leases must be altogether withheld from or more sparingly given to non-Indians, and Indian enterprise and capital ought to be encouraged. Our motive in seeking industrial development is the desire to promote the growth of national wealth and national income. But much of our present economic development is development by proxy. We have a very small share in it and the profits of our industries do not remain to fructify in the pockets of the people.

British capital investments in this country are estimated by some at about 700 crores of rupees, distributed among various industries and other concerns. I am not one of those who would taboo all foreign capital. I would rather welcome it provided it is handled by our own people. It is said that the burden of the interest charges that India has to bear is already very large, and we cannot afford to increase this burden by



borrowing European capital any further. But if we ourselves borrow foreign capital for the exploitation of our national resources, the burden of the interest charged thereon will be more than counter-balanced by the profits that will find their way into our pockets and the increase of national wealth that will ensue. So long as no Indian capital is coming forth in the desired quantities, we must borrow cheap foreign capital. But the industries thus financed by foreign capital must be entirely in the hands of Indians. The enterprise and the management must be Indian, all the profits derived therefrom must also be Indian. Let us try by all means to get as much indigenous capital as possible. But large concerns—and concerns have to be on a large scale to be remunerative—require enormous capital, which we cannot hope to get locally for a long time to come. At present we put all European managed industries whether coal or gold mines, woollen or jute mills, tea or coffee plantations, in the Swadeshi category, and this is good so far as it goes. But our next step must be to make them genuinely Swadeshi. Irrespective of creed or colour, they are the sons of India who have made this country their home, who have a stake in it and who share its poverty and prosperity. To the wealth of these ought our industrial growth to contribute. European talent, enterprise and capital have done and are doing the work of pioneers in many a difficult industrial and commercial line, and they are deservedly reaping the fruit of their exertions. We are much indebted to

them for their having shown us the way and fired us with a zeal to follow their foot-steps. We owe it to ourselves to acknowledge the service they have rendered to us, and our success depends upon how we profit by the lesson they have taught us.

There is an Indian proverb which says that the times are always what the sovereign makes them. This adage reflects the notorious dependence of orientals upon the State. India has been ever foreign to the democratic and representative institutions like those now predominant in the countries of the West. But what people are there on the earth who have not been helped into their commercial and industrial prosperity by the State? In Germany, America, Japan and even in England, the State has completely identified itself with the people in the promotion of industries. In England there was a reaction against too much State interference and in favour of *laissez faire* and individualism. But there is now a swing of the pendulum in the opposite direction, and a tendency towards State protection and State Socialism is clearly discernible almost in all the countries of the West. By means of bounties and draw-backs, protective tariffs and technical education, and in a hundred other ways the Governments of other countries are promoting the growth of national industries and national wealth. We in India expect our State to do the same thing for us. Our educated people are often taunted with their too much dependence on Government and their extreme fondness for Government service. Whether the taunt

is merited or not, we have the examples of other States before us and we know what they are doing for their people. I do not wish to exaggerate, and it would be doing injustice to Government if I were not to acknowledge freely what the Indian State is actually doing to promote nascent industries. Evidences are not wanting to show that Government have become alive to their duties, and the economic development of the country is being assisted by them in various ways such as industrial conferences, exhibitions, experiments and demonstrations, surveys and scholarships and the introduction of better types of implements and machines. What little has been done is nothing, however, in comparison with what has and ought to be done. The people, though they have not done all that is expected of them, have risen to the occasion, and mutual response and co-operation may be calculated to do the needful in the near future. Government in India has, however, to devise its measures for the good of its people with one eye upon London and the other on Calcutta. And the two eyes do not often see things in the same light. It is a delicate task, to reconcile two often-conflicting interests. But the firmness and liberality which have been just displayed in the matter of the Reforms may, with advantage, be extended to the sphere of industry. Public opinion in India has become uncompromisingly protectionist and expects Government too to accept that creed. India will be willing to join in the scheme of Tariff Reform which is to embrace the whole British Empire, provided she

receives her due share of advantages. The Government of India is sure to stand by the people in this respect. Circumstanced as we are, our purpose will not be served by mere palliatives and temporary measures. The State here must make it its serious business to see that Indian resources are developed in the interests of India and its people. It must give us all the facilities we want; nay much more. It must stimulate interest, spread broad-cast primary, technical and scientific education, send young men in their hundreds and thousands to foreign countries to learn various industries there, help capitalists and enthusiastic men to start new industries and protect them against outside competition. For Indian people this is presumably not too much to expect of their Government. It has been done in Japan, in America, in Germany, and in England. Why then not in India?

In short, the situation is this. An economic revolution is in progress in the land. The old national industries are dead or dying. New ones have not yet taken their place. The competition around us is keen and killing. We lack enterprise, capital, experience, scientific knowledge and sufficient State protection. Agriculture is in the most backward condition. There is congestion of labour in agriculture which must be relieved by employment in manufactures. Poverty and ignorance stalk over the land. Conscious of their helplessness, and yet awakened to a sense of their duty, people are doing what they can to relieve the gloom that surrounds them. A ray of hope cheers their way and the Government is

showing its interest in their efforts to revive old and start new industries. Most of the credit of the little progress that official reports and statistics show, belongs to European capital and enterprise. Most of what are called flourishing Indian industries, with the growth of which India is usually credited, are in European hands, the fruit of their labour. The profits made from them naturally go out of the country and India is none the richer for them. People in India expect their Government to be national and do for them what other States have done and are doing for their own people. New India is Protectionist and wishes Government to adopt the same faith. The complete identification of the rulers and the ruled is the keynote of success. Single-handed, the people can do nothing. Nor have they done, it must be confessed, all that they should have. The little work that has been done only emphasises the vastness and the extreme difficulty of the whole problem. Some efforts are being made both by Government and people; but infinitely much more remains to be accomplished. The future depends upon how we help ourselves and induce Government to help us.

#### IV.

#### THE PROBLEM OF HIGH PRICES.\*

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THE one great problem which more than another dominates the public mind at the present moment is the problem of prices. The high prices that have recently become a feature of our economic condition, have come to claim a degree of attention few other questions have attracted during the past few years. This is because high prices more or less affect all people. The rich and the poor, the employers and the employed, the salaried and the wage-earners, the Government and the people, individuals and institutions—all these, in one way or another are interested in this question of prices. Though the subject is thus an all-absorbing one, its seriousness is equalled only by the obscurity in which it is involved, and the difficulty of reducing the high prices to a definite cause and suggesting remedies to bring them down. Public opinion, expressed in the press and on the platform, the Council Chamber and the Congress, has demanded an inquiry into the whole question and Government have been requested to appoint a commission of experts to investigate the subject. Assurance has been already given to us that the question is engaging the serious attention of the Government. Sir G. F. Wilson in the

\* A paper read before the Deccan Sabha, Poona, on 2nd May 1909.

speech he made the other day in the course of the budget debate in the Imperial Legislative Council, adverted to the high level of prices and made a few general remarks on some aspects of the question. In passing he examined the theory of the exports of food grains as an important factor in raising prices and indicated that the adoption of a gold standard by India had something to do with the upward movement in prices in this country. He had no remedies to propose, and said that he approached the subject with great reserve, both on account of its complexity and because it is at present being discussed between the Government of India and the Secretary of State. The Hon'ble Mr. Gokhale, who opened this question in the Council last year, referred to it this year also. He pointed to the inflation of the currency as being responsible for the continued prevalence of high prices in all parts of the country, and with a diffidence, quite justified by the complicated circumstances of the case, suggested a change in the present currency policy of Government. Other people, publicists or otherwise, have put forward various theories widely differing from one another, and the complexity of the question has been made more complex for the ordinary man. When gentlemen of recognised authority in such matters differ widely and feel diffident about this perplexing problem, it would be sheer rashness for any other person to express any definite opinion. I am not however going to rush in where other people have feared to tread, and lay down any theory or make definite and dogmatic assertions.

I merely propose to lay before you the various explanations of high prices that have been so far offered and see how far they can be said to contribute in raising prices. It is a question of practical economics and finance, surrounded by a variety of difficulties, and I have ventured to take it up because I feel that a statement and discussion of the various theories is sure to be both interesting and instructive inasmuch as it may help us to arrive at the truth.

I do not think it is necessary for me to enter into a detailed history of the fluctuations in prices for the past half century and try to explain them. It is sufficient to remember that prices of food-stuffs have been as a rule modified by the conditions of the monsoon, rising with the failure of the rains and falling with the return to normal rainfall. In spite of such fluctuations, however, there has been a pretty steady rise in prices, especially during the last few years, which cannot be satisfactorily accounted for by droughts. The following table will give us an idea of the variations in the average retail prices of four of the more important food grains at selected centres.



(PRICES OF 1873=100).

Year.	Rice.	Wheat.	Jwari.	Bajri.
1873 ..	100	100	100	100
1887 ..	125	123	127	122
1888 ..	135	124	131	134
1889 ..	147	118	122	128
1890 ..	143	116	123	118
1891 ..	149	135	138	137
1892 ..	178	151	138	142
1893 ..	164	125	122	123
1894 ..	152	104	112	118
1895 ..	141	117	121	119
1896 ..	216	152	154	166
1897 ..	210	206	203	211
1898 ..	157	145	131	130
1899 ..	144	158	137	140
1900 ..	176	180	214	200
1901 ..	183	163	145	139
1902 ..	166	143	134	133
1903 ..	162	129	116	115
1904 ..	146	122	110	109
1905 ..	169	139	137	146
1906 ..	213	159	173	174
1907 ..	238	165	162	151

It will be seen from the above table that with slight variations here and there, there is a steady rise in the prices of the four chief articles of food in the country. If we compare the prices of 1873 with those of thirty years later, we have a rise of more than 100 per cent for rice, more than 50 per cent for wheat, and about the same percentage for the other grains. We have

it on the authority of the Finance Member that the rise in the food grains during three years 1904—07 which were years of normally good harvests, was 25 per cent. And the question now is, how is this abnormal rise to be accounted for? But at the outset some critics are likely to break in and say, supposing there are high prices ruling in the country, is it not a matter for congratulation rather than anxiety? High prices, according to these people indicate the growing prosperity of the country, greater purchasing power, a higher standard of comfort, larger profits and better wages. In all progressive countries high prices are associated with growing prosperity. Accordingly in India too rising prices are a blessing in disguise, pointing to an improvement in the lot of the ryot, the agriculturist, the artisan and the labourer. Now if this view of the case be the right one, all anxiety at present felt on the score of high prices, both by Government and people, would surely be the result of a misapprehension. Mr. Dadabhai Naoroji has shown in his "Poverty of India" that causes of a healthy rise of prices do not exist in this country and that whatever rise there is to be found, it is as a general rule the effect of local and temporary causes such as droughts and famines, public works such as railways, and the influx of foreign capital to finance such works. Though our industrial position has slightly improved since this was written, that improvement is not so marked as to make us rich and raise the general level of prices. No Alladin's lamp has suddenly transported us from poverty to prosperity. If we look into

the history of the rise of prices for the past few years we see that they have been generally regulated by the conditions of the harvest, though latterly they seem to have become permanent, drought or no drought. It is contended that in as much as the ryots get higher prices for their produce and as agriculturists in this country constitute more than 60 per cent. of the population, to them high prices are a godsend and that even artisans and common labourers have been able to share this windfall. It will be well to remember here that very little of that alleged profit goes into the pockets of the cultivators who are as a rule ignorant. Our unintelligent peasantry and im-moble labour are not, as in other countries, able to profit by high prices. It may also be said in answer to this contention that rates of wages have not risen in the same proportion as prices of food stuffs, which constitute four-fifths of the cost of living of the ordinary labourer in India and which therefore determine his standard of living. There may be a rise in wages in some commercial and industrial centres but the higher cost of living is not likely to leave much to the labourer. So long as there is no substantial addition to the wealth of the country, mere high prices are no index to growing prosperity. It is because the cost of living is increasing that wages have to be enhanced and there are demands in every department for a revision of the scale of salaries. There is no evidence to show that high prices are the effect of growing wealth. If the high prices which have been ruling in

the country for the past many years are a benefit to the peasantry, why do we find our agriculturists hopelessly sunk in indebtedness and misery? The very fact that their lot has not improved by the high prices they are said to obtain for the produce of their fields, clearly proves that the prosperity of high prices is a mere myth. Can we then congratulate ourselves on the advent of high prices brought about by droughts and distress, and by temporary and local causes? But has not the Swadeshi movement, since Mr. Dadabhai wrote, created a greater demand for labour and enhanced prices? This would be welcome if it were only true. But unfortunately it is otherwise. It may at once be conceded that local causes such as the starting of mills and factories, railway and irrigation works may have raised wages in some places as they depend on the demand and supply of labour. But high prices do not always involve high wages and however flattering the progress we are making in the industrial movement may be, it is surely not so striking and widespread as to send up prices and wages throughout the country. If we bear in mind the very small proportion of people who are likely to have benefited by the slight progress of our industries, it will at once be clear that their influence on prices cannot have been very appreciable. When our nascent industries increase and expand to a markedly large extent and thus increase the annual production of wealth in the country, high prices may be a sign of prosperity. Till this happens, a mere rise of prices cannot be a sign

of healthy growth. There is one more thing that must be taken into account and it is this. High prices make labour dear and dear labour increases the cost of production of articles. One great advantage India enjoys at present is cheap labour; now if labour were made dearer by high prices of food stuffs, Indian industries which have only just begun to raise their heads, being seriously handicapped, would find it hard to compete with foreign ones, and our industrial progress would be hampered. High prices of our articles would check our exports and India would not be able to meet her foreign obligations which amount to some 25 crores of Rs. per year. Thus high prices would spell disaster to our industries and finances. All these considerations have to be borne in mind at the time of welcoming high prices as the harbingers of prosperity and wealth.

There are a variety of causes, remote and immediate, direct and indirect, which have combined to force prices to their present high level. What is the exact degree of their influence cannot be definitely ascertained, but that they have had a share more or less cannot be doubted.

(1) The first place in order though not in importance among these causes, may be given to the occasional droughts of varying dimensions and intensity, devastating large tracts and killing considerable number of men and cattle, with which we have now become so familiar. If we begin with the year 1891-92 when there was a prolonged drought, we find that prices

which were sufficiently high during the quinquennium of 1886-90 were still further raised during the next few years. A strong Indian demand for rice was coupled with large exports and there was an unprecedented export of wheat owing to failure of crops in Europe which pushed up prices here to the famine point. With better seasons prices cheapened but they did not go back to their old level. Prices of food grains again went up to the highest level then on record, during the famines of 1896-97 and 1899-1900. During this period the export trade in rice was kept up on a large scale and in 1898-99, the year preceding the second famine, export of food grains exceeded three million tons. In the next few years prices went down, but stocks exhausted by lean years take time to be replenished. In fact of late years the stocks of food grains which were so common formerly, have disappeared, and when there is a diminution of production in a year of drought, there are high prices and consequent distress.

(2) The second cause seems to be that the outturn of the food grains has not been keeping pace with the increasing demand for them. In some places such as Bengal and parts of Bombay, the cultivation of Jute and Cotton, which are more paying, is being substituted for that of food grains. The area under food grains which was  $182\frac{3}{4}$  million acres in 1897-98 came to a little more than 195 millions, the highest figure during the last decade, in 1906-07, which means an increase of  $7\frac{1}{7}$  per cent. in ten years, while the area un-

der Cotton and Jute increased by nearly 50 and 70 per cent respectively during the same period. The yield of rice which was nearly 500 million cwts. in 1897-98, 505½ and 451½ million cwts. in the next two years, shows an average of about 444 million cwts. only during the last five years, the figure 500 never being attained for the past nine years. The yield of wheat which averaged 7½ million tons during the first half of the decade commencing from 1897-98, became no doubt 8½ on an average during the second half, the acreage under it increasing by nearly 25 per cent. in ten years. But now-a-days wheat appears to be grown more largely for export than for home consumption, and its supply for home consumption is therefore precarious. In spite of the havoc made by plague, malaria and droughts, the population of the country must be increasing to some extent, and this increase must press on the soil and the prices of food grains must go up. Another important factor is the increased demand for food grains created by facilities of communication and transport such as railways and steamers which carry these grains into nooks and corners of the country. The phenomenon of a province with abundance of food bordering on a district with a population starving for want of the same, is becoming more and more rare. The large annual coast-wise exports of rice from Burma to Bombay and Madras are an illustration in point. These exports which were 195 thousand tons valued at more than 1½ crores in 1903-04, came to 460 thousand tons valued at 3½ crores in

1905-06 and to 979 thousand tons valued at 9½ crores in 1907-1908. This more extended distribution tends to equalise prices. It will be obvious even to a superficial observer that the standard of life of people living on the lines of railways is gradually becoming higher as things which were mere luxuries to them before are being brought to their doors by the easy means of communication. Thus the people in the Konkan who are proverbially known to be rice-feeders may now be seen to indulge in wheat and jwari to a slightly greater extent than before, as those living above the ghats with whom Jwari and Bajri are staple foods may be found to partake a little more freely of rice. Even poorer people may be seen trying to indulge in such luxuries, which are being made more easily accessible to them day by day. A more equal distribution of such articles has created a taste and demand for them, and their prices must naturally rise with the increased demand, not accompanied by an equally increased supply.

(3) I have said above that exports of food grains have often been maintained on a high scale even in times of scarcity. Exports of rice, which is one of the most important food stuffs in this country, have been on a pretty high scale during the past few years. Both wheat and rice are grown more largely for export. Grain elevators about which so much is being said now-a-days and dock facilities at Karachi and other ports, as also railway arrangements on a more convenient and cheaper system, point to the larger and larger exports



of wheat and other food grains. The Hon'ble Sir G. F. Wilson tried to show in the Imperial Council the other day that inasmuch as the quantities of the food grains yearly exported to foreign countries bear a very small proportion to the production of the same, they cannot be said to affect prices in this country. This was meant as a reply to the suggestion of some people who hold that large quantities of food grains being exported every year, the quantities available for home consumption are not adequate to the demand, and hence their prices have risen and who have proposed that a sufficiently high duty on these exports may be levied to the advantage of the Indian consumer, as these duties would lower prices. Whether this remedy is likely to serve its end or not, it will be easily seen that exports must tell upon prices, if it is borne in mind that owing to increased internal demand caused by extended facilities of communication and the growing wants of the people and the failure of the outturn of the food grains to keep pace with that demand, exports, howsoever small proportionately to production, must diminish the quantities required for ordinary consumption at home and thus force up prices. Again, we see actually that the higher prices fetched by the food grains when exported to the rich foreign countries which can afford to pay highly for their food must naturally influence prices here, and must bring the latter to their own level. To take a simple and practical illustration of the result of the export of a commodity on the local price of that commodity

Mangoes used to be extremely cheap at one time in the Konkan, so much so that a basketful could be got for a pice or it is no exaggeration to say that they could be had for the gathering. But latterly a very brisk trade in mangoes is being carried on with Bombay, and Bombay people afford to pay high prices for them. The result is that mangoes have become very dear in the Konkan. You know that cocoanut kernel or copra as it is called, has now-a-days become dear. Some 143 thousand cwts. of this article were exported in 1902-03 and fetched nearly 122 thousand pounds, while in 1906-07, a smaller quantity, viz. 126 thousand cwts. brought an equal number of pounds. Last year only 119 thousand cwts. were exported and they were valued at 144 thousand £! Thus though the quantity declined by 4 per cent. the value rose by nearly 14 per cent. in one year. Similarly ghee was exported last year to the value of more than 26 lakhs of Rs. and the declared values of ghee per cwt. have been steadily rising for the last five years, as will be seen from the following figures.

	Rs. per cwt.
1903-04	47·6
1904-05	49
1905-06	50·7
1906-07	54·2
1907-08	60·6

Now ghee is an important item in the diet of the middle class people and retail prices up country show a proportionately steady advance. Even in times of normal rainfall prices are as high as in times of scar-

city, and consequently become almost prohibitive for the poorer classes. Copra and Ghee are no doubt of minor importance, if we look to the small quantities exported. They at any rate show how exports have some influence on the prices of articles exported. This view gets greater strength if we work up the figures of the quantities and values of the rice and wheat exported and compare the rise of prices in the exported grains with that of rice and wheat consumed in the country itself. The necessary figures are given in the following two tables:—

QUANTITY AND VALUE OF THE EXPORTS OF RICE.

Year.	Quantity Tons.	Value Rs.	Approximate value per ton Rs.
1903-04	22,50,000	19,08,28,000	85
1904-05	24,74,000	19,61,90,000	79
1905-06	21,52,000	18,63,69,000	86½
1906-07	19,35,000	18,52,51,000	95
1907-08	19,13,000	20,33,63,000	105½

QUANTITY AND VALUE OF THE EXPORTS OF WHEAT.

Year.	Quantity Tons.	Value Rs.	Approximate value per ton Rs.
1903-04	12,95,565	11,08,89,546	85
1904-05	21,50,025	17,90,60,692	83½
1905-06	9,73,523	8,53,43,996	87½
1906-07	8,01,445	7,25,44,650	91
1907-08	8,80,459	8,58,50,350	98

Here the price per ton of rice exported rose in five years from 85 to 105½ Rs., which means a rise of about 24 per cent.; while the rise in price in the country itself going up from index number 162 to 238 seems to be more than 45 per cent. during the same period. Similarly the rise for wheat is 15 and 27 per cent. respectively. Does this not go to show that the retail prices in the country are more affected for the worse than the wholesale export prices? It is also seen that while the prices of the food grains are very high in the country, producers of these who sell them more cheaply do not derive any advantage from the exports. Instead of profiting by the high prices of food grains ruling in the country, they lose so much by having to export at comparatively cheap rates. How can high prices then benefit the poor cultivator? It is perhaps the rich exporters who make profits and not the helpless peasants. Exports only diminish the quantities that would otherwise have remained in the country without throwing any profit into the pockets of the producers. "The dependence on foreign prices of crops grown for export is also apparent in the case of rice, for the rise at Rangoon in recent years is not nearly so great as at Calcutta, and the variations, which are often the result of speculation are quite unconnected. Thus while the index numbers at Calcutta during the three years 1901-03 were 184, 195 and 163, at Rangoon they were 122, 118 and 151." The prices of food grains have come more and more to depend on the foreign demand for them and a rise in

the price of them can be explained by their exports. The railways are proving a doubtful blessing in this respect. They ransack the nooks and corners of the country and carry off to foreign countries food grains at comparatively cheap prices, only making them dear to the people of the soil without compensation for the loss.

It cannot therefore be surplus grain which India exports, as is comfortably believed by many people, because no such surpluses are possible in the face of the ever-recurring droughts, comparatively diminished outturns and increased internal demand. Exports are sure to exhaust the otherwise insufficient quantities that would be available for consumption in the country, and the intensified demand for the diminished stock raises prices. That "the demand for export has undoubtedly influenced the price of rice and wheat directly and through them the prices of the commoner food grains" may be seen, for example, from the fact that "a remarkable fall in the price of food grains in the United Provinces in the year following the severe famine of 1896-97 was assigned by the local officials to the small export demand for wheat."

(4) Last but more important is the theory of the superfluity of currency in the country, which has been advanced by gentlemen whose opinion is entitled to great weight in matters of economics and finance. The Hon'ble Mr. Gokhale put forward this view of the cause of high prices in his budget speech last year, and emphasised it this year also. That the

prices of commodities in a country are to a certain extent regulated by the system of currency obtaining in that country, seems to be generally admitted. It is a commonplace of economics that the quantity of coins in circulation in a place governs the prices ruling in that place. If the coins in circulation are not sufficient for the ordinary commercial transactions of a country there will be a very large demand for them, which will raise their value like that of any other article, and the purchasing power of the coins will rise. As a smaller number of coins will be available for exchange, only a small number will be paid for articles. This means that prices of articles will fall. If, on the other hand, the coins in circulation are more than are required for the common transactions of the market, the copious supply will lower their value and with it their purchasing power. More coins will be needed to purchase an article; in other words, there will be high prices. This is exactly what has happened with respect to the Indian currency. It has been observed that before the year 1893, when mints were closed to private coinage of rupees, whenever there was a general rise of prices it could be accounted for by heavy imports of silver and the active circulation was increased by a large addition to the coinage. It has been concluded, with certain reservations, "that the contraction in the volume of the currency which must have resulted from the suspension of rupee coinage during the three years following the closure of the mints, and the very limited recoinage operations of the next three years, caused a sensible reduction in the

general level of prices during the years 1898-1899. The remarkable cheapening of both the retail and wholesale prices of food grains in the year immediately following the great famine of 1896-97 also gives support to this view. "Till June 1893 Indian mints were open to the unrestricted coinage of silver and large quantities of rupees were coined from time to time, the largest number ever coined being in 1877-78 viz, 15,94,34,980. Government had been embarrassed by the falling rupee and heavy compensation and exchange charges they had to pay from year to year. The uncertainty in the prices of silver gave commerce the air of speculation, and at last Government resolved to rectify the mistake committed in the time of Lord Dalhousie in 1853 when gold was demonetised, and to stop the "acrobatic feats" of the rupee. India was now to embark on a gold monetary standard, and in 1893 mints were closed to free coinage of silver. In 1899, sovereigns were made legal tender at the rate of 1s. 4d. a rupee. The price of the rupee was artificially fixed by law at 16 pence, and steady efforts have been made to maintain the rupee in the neighbourhood of that value. Old worn out rupees of 1835 and 1840 to the tune of many crores have been withdrawn from circulation. Only last year twelve crores of superfluous silver coins were also withdrawn. Yet in 1900-01, 13.27 crores and in 1903-04, 10.65 crores of rupees were added. Nearly 20 crores were coined in 1905-06, 25.37 in 1906-07, and 17.33 in 1907-08, so that it is estimated that there must be at present more than 200 crores

of rupees in circulation. This enormous out-put of Indian mints has created a superfluity of rupees, which has, according to the law of supply and demand adverted to above, raised the general level of prices. It is contended that the large out-put of rupees has been the result of the demand for them for the purposes of commercial transactions. It may be conceded that a large supply of rupees is necessary during the seasons of brisk trade. But once the rupees are coined, they remain in circulation. No body will melt them or hoard them as their intrinsic value is very much lower than the artificial value fixed by law. So long as mints were open to free coinage there was, we may say, an automatic machinery in work which would contract or expand the supply of rupees as the needs of the market required. But this is no longer possible, and every fresh coinage of rupees adds to the already large volume in circulation and prices rise. If the rise in prices were steady as the result of the natural growth of the wealth of the country it would have been welcome. But as I have indicated above, the rise is abnormal and almost sudden during the last few years of normal harvests, and this rise cannot be satisfactorily explained except on the theory of the inflation of the currency. The *Statesman* newspaper of Calcutta which looks upon the present high prices as a blessing in disguise, endorses the view of Sir Edward Baker who has attempted to refute the currency theory advocated by Mr. Gokhale and the Hon'ble Mr. Webb. Sir Edward Baker's contention is that the advance in



prices began long before Indian mints became active in coping with the requirements of trade. In support of this view he says that the average out-put of rupees was less during the past fifteen years than in the fifteen years previous, when high prices did not prevail. I think Mr. Gokhale has given a satisfactory reply to this argument in this year's budget speech when he says, "I think the quantitative theory of money holds good much more in the case of a backward country like India than in those of more advanced countries. Variations in the prices of individual commodities may be due to variations in the demand for them or in their supply. But a more or less general rise in prices can only point to a disturbance of the currency." That there has been a larger demand for the food grains unaccompanied by an adequate supply of them for the past few years has been shown above. If this factor of increased demand is taken into consideration, we can explain why there were no high prices though there was copious coinage of rupees twenty years ago. Another argument of people who oppose the currency theory is that the rise in prices has affected food grains only; and that a superfluity of coins would have caused a general rise. This view also has been properly met by Mr. Gokhale with these words:—"such a rise need not be uniform in the case of all commodities, for in the view which I am stating, prices are a function of three variables—currency, demand and supply, and any general rise resulting from a disturbance of the currency may be modified in particular

cases by one or both of the other factors." It will be abundantly clear from what has been said so far that the very large quantities of rupees already in circulation estimated at the prodigious figure of 200 crores and the enormous output of the mints during the last few years have indisputably caused almost a general high level of prices in the country. In the speech made the other day at the annual general meeting of the Karachi Chamber of Commerce by the Hon'ble Mr. Webb, he also attributed the present rise of prices to the large output of the mints in recent years. Mr. J. M. Keynes who has contributed an article on "Recent Economic events in India" to the March number of the *Economic Journal*, says that (1) a decrease in the production of food grains, (2) increased consuming power on the part of the people and (3) rise in gold prices, these three have to a small extent, combined to raise prices; but these causes do not go far and he has turned to the circulation of actual rupees for a solution. He is of opinion that there has been, during the last seven years, a large and continual flow of foreign capital, partly in the shape of commodities but largely in the shape of money, and this is a potent cause in raising prices, the upward tendency being helped by the enormous output of the Indian mints during the same period.

5. The currency policy on which Government embarked in the year 1898, howsoever necessary and beneficial in some respects, has in many ways disturbed the economic condition of this country, and having yoked India with the other gold-using nations of the

world has launched us into uncertain waters. Waves of disturbance in the monetary position of the rest of the world, do not fail to reach the Indian coast and to involve us in the price fluctuations to which others are subject. The average wholesale prices of both imports and exports have not indeed been much infected by the uppish tendency noticed in the retail prices in the interior of the country. They are almost marking time except during the last few years when small disturbances might be discerned. Rise in gold prices outside must, however, affect the prices of those articles which are exported to countries with a gold currency. The same thing happens with respect to the imports. But these are disturbances which, though affecting the general prices of articles in the country, are a factor of very minor importance when compared to the other causes that are at work in the country. Thus while the price of food grains rose 16 per cent. in the United kingdom during the last four years, those in India have gone up about 43 per cent. How far the internal rise of prices induced by the rising gold prices abroad will benefit the people of this country is problematical, and even the Finance Member who suggests this close dependence of prices in India on those obtaining in other countries, is not very sanguine about the future. Sir G. F. Wilson observes:—"India by its adoption of a gold standard has been switched on to the currency guage of the rest of the world ; and is undoubtedly bearing its share in the price fluctuations to which the rest of the world has been subject. Indeed a care-

ful study of the gold prices in Europe during recent years and of the general prices of commodities in India reveals a parallelism. This country is undergoing great economic changes and the change in money values is one of them. Whether the change will ultimately result for the good of India, it is difficult to say." If the present high prices in India, so far as they are caused by gold prices elsewhere are only a passing phase, we may hope to return to normal conditions very soon. But such a hope does not seem to be justified in the face of the various factors that have combined to send prices up and that have been briefly discussed above.

I have in this paper tried to state the various theories which have been put forward as regards the causes of the rise in prices. The fallacy and delusion lurking in the complacent contemplation of rising prices as an indication of the growing prosperity of the people have, I hope, been sufficiently exposed. The gradually rising level of prices, pushed up by the increasing wealth of the country, a larger output of agricultural products and a more profuse outturn of manufactured articles may be a welcome sign of economic progress. But high prices caused by a more extensive demand, a rising population, heavier exports of the food grains and raw materials, by droughts and famines, by a more copious circulation of the currency, by a diminished outturn of agricultural products and such other things ought to make us pause and think. I have shown above, however, that it is these causes

that are responsible for the abnormally high level of prices now ruling in this country. None of these alone has brought about this result. All of them, more or less, are responsible, though the degree of the responsibility cannot be gauged with any precision. Rao Bahadur G. V. Joshi, who on account of his deep study and research in the field of Indian economics extending over a generation, ought to take a high rank among the devoted and systematic students of economics and industries of this country has, in a learned article he contributed to the *Indian Review* in 1907, emphasised the view of this problem as I have taken above, though he does not lay so much stress on the enormous circulation of the currency as a very important factor in the problem as I have done. This problem of high prices cannot apparently be solved satisfactorily unless there is more extensive and specially more intensive cultivation, so as to increase the yield per acre of agricultural products in a line with that in more advanced countries, in other words, unless the production of wealth in the country is increased. Manipulation of the currency would, according to this view, be a mere palliative. When the doctors themselves differ in their diagnosis of the disease and as regards the remedies to be applied, it is very difficult to suggest a cure. The Hon'ble Mr. Gokhale said the other day in the course of his budget speech :—"It seems to me that the only way now out of our difficulties is to follow the example of France and the United States, and while admitting the rupee to unlimited

tender, stop coinage of new rupees and coin gold pieces instead. Of course I express this opinion with great diffidence, for there are serious considerations on the other side and the whole subject is enveloped in great obscurity. But I fear that the present half-way house will not do, and unless we place our currency on an automatic and self-adjusting basis, the clouds that are already overhead will thicken and not roll away." Similar remedies have been suggested by other people whose opinion is entitled to some weight. But in the uncertainty and perplexity in which the whole question is shrouded, it is best for me to say with Burke:—"My aim is to bring this matter into more public discussion. Let the sagacity of others work upon it. It is not uncommon for medical writers to describe histories of diseases very accurately, on whose cure they can say but very little." No one is in a better position to undertake such an inquiry than Government who are said to be considering this whole question. Let us hope this inquiry will soon be set on foot, the disease diagnosed by experts, proper remedies suggested and immediately applied.

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V.  
TWENTY-FIVE YEARS' SURVEY OF INDIAN  
INDUSTRIES.\*

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It was exactly fifteen years ago that a master hand drew a vivid and careful picture of the industrial condition of this country as seen at that time and exhibited it before a similar gathering in the capital of Maharashtra. Mr. Justice Ranade showed in a paper which he read in 1893 before the Industrial Conference in Poona and which has been embodied in his *Essays on Indian Economics*, that the process of "ruralisation and rustication," which had been going on in this country for a century and more, had at last received a check, and people had come to recognise the importance of adopting modern methods of manufacture and the necessity of seriously applying themselves to the revival and encouragement of indigenous industries which had already died out or were on the way of extinction. A robust optimist by temperament, and a keen observer by nature, he saw clearly signs of movement in the right direction and predicted that, if that industrial activity was persevered in, in spite of our manifold difficulties and drawbacks, we were sure in a few years' time to be on the high road to the realisation of our cherished object. From a comparison of the trade returns of the year 1892-93 with those of fourteen years previous, and from a general survey of the nascent industries he came to the hopeful conclusion that the transition of India from a purely agricultural to a partly manufacturing and trading country had com-

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\* Paper read at the Fourth Indian Industrial Conference Madras, 1908.

menced, and that the outlook, on the whole, was decidedly cheerful and promising. Fifteen years have elapsed since this happy prophecy was made, and I feel that this is a fit occasion to take stock and see how far the hopes held out by Mr. Ranade have been realised, though it must be confessed that for more than a decade after his declaration no serious, sustained, and systematic attempts were made to further the cause of industrial development. It is during the last five or six years that we have once more roused ourselves from the lethargy, and this Conference itself is a sign of the healthy activity we have resumed. To ensure a correct judgment in my survey, I propose to set up the same tests and the same standards for comparison as Mr. Ranade used for the purpose. Such a survey has become necessary to guide our footsteps in the right direction and to encourage us in our uphill work of industrial regeneration. It will also serve the useful purpose of dissipating the false hopes that we are always likely to form of our future and to open our eyes to the realities of the present situation as distinct from the delusive dreams of day-dreamers.

Though the ever-advancing values of imports and exports of merchandise given in the official trade returns may not be a true test of the growing prosperity of the people, they are useful as indicating how, as a result of our increasing wants and the rapid spread of railways and other means of communication, we have been consuming more goods from foreign countries and sending out to them what they want also in larger quantities.



TABLE NO. I

*Showing the increase in imports and exports during the last 14 years.*

Quinquennium.	Average of imports of merchandise.	Variation taking 1892-93 as 100.	Average of exports of merchandise.	Variation taking 1892-93 as 100.
	Rs.		Rs.	
1893-94 to 1897-98.	70,90,02,563	100	101,79,71,169.	100
1898-99 to 1902-03.	75,13,53,955	106	113,25,58,571.	111
1903-04 to 1907-08.	104,54,99,143	147	161,69,34,274.	159

From the above table it will be seen that during the last fifteen years, while our imports have gone up by 47 p. c., our exports have exceeded by 59 p. c. I do not wish here to go into the details of this question of the balance of trade, and shall content myself with merely recording facts in connection therewith.

The classification adopted in official reports, by which articles are grouped in seven classes, certainly convenient in other ways, is not suitable for the inquiry which I have proposed to make in this paper. This distinction between purely raw materials and articles which have wholly or partly undergone human or mechanical manipulation is not clearly brought out in them. Following this mode of grouping, Mr. Ranade

has considered as raw materials all those articles which are not classed as manufactured goods. Thus sugar, oil, spirits, tea, engines and mill work Mr. Ranade takes as raw materials, while they should have been included under manufactured articles for correctly estimating our industrial progress. As I have said above, however, I shall, for the present, adopt the same tests for comparison as he has done, and see what progress our industries have made during the last fifteen years.

In the year 1892-93 out of a total of 164 crores worth of exports and imports, excluding treasure and Government transactions, we imported nearly 36 crores worth of manufactured produce while we exported 86 crores of raw produce against 16 crores worth of manufactured articles. Comparing these figures with those of 1878-79, Mr. Ranade has mentioned five features of the transition referred to at the outset. The first of these which marked the fourteen years he reviewed, was that the export of manufactured and partly manufactured goods had risen in the 14 years ending with 1893 by 211 p. c. Applying this test to the next fifteen years we find that the figure representing the exports of these goods was in 1907-08,  $39\frac{1}{4}$  crores as against  $16\frac{1}{2}$  crores in 1892-93, which means an increase of 139 p. c. in fifteen years, or a steady advance of nearly  $9\frac{1}{4}$  p. c. per year as against the 15 p. c. yearly during the 14 years previous. This increase in the first quinquennium, 1891-93 to 1897-98 was 5 p. c. per year, in the second from 1898 to 1903 again 5 p. c. while in the last quinquennium ending in 1908 the increase was 56 p. c.,

that is, more than 11 p. c. annually. There could be no clearer proof of the rapid strides our industries have been making for the past few years. Secondly, while the increase in the exports of raw produce was 43 p. c. in 14 years ending in 1893, that in the next fifteen years was 59 p. c., which means nearly 4 p. c. per year as against the 5 p. c. increase in the exports of manufactured goods. This comparatively larger increase in the exports of raw materials shows that we have not gained ground in this line and that we have not been making satisfactory progress in manufacturing our raw materials. We content ourselves with only sending out to foreign countries many items in this group which we ought to turn into finished goods in our own country. Thus oil-seeds, which represent a large portion of the entire exports of Indian produce, were sent out of this country to the value of 16½ crores in 1907-08 as against 13 crores, the average value for the previous five years. This is an enormous loss to our country, and yet not much attention seems to have been paid to this important industry. Thirdly, while the increase of manufactured articles imported into India was 30 p. c. in the fourteen years ending in 1893, the same amounted to 93 p. c. in the next fifteen years, that is 6½ p. c. per year. This shows that, as education is steadily spreading throughout the country, as the face of the land is being transformed by railways, telegraph, and the post office, and as new habits, customs and tastes are penetrating even the lower strata of our society, a larger number of new wants

is being created among our people, to satisfy which imports of various kinds of manufactured articles have become necessary. The luxuries of the last generation have become the necessities of the present. As an illustration of this tendency, it may be mentioned that during the last five years the imports of metals and manufactures of metals have nearly doubled in value, those of carriages &c. went up from 96 lakhs in 1905-06 to one crore and more in three years and a similar increase has taken place in the case of many other articles of manufacture such as cotton, leather, paper, glass, sugar, umbrellas, &c. Finally, the imports of raw produce which stood at  $26\frac{1}{2}$  crores in 1892-93 reached in 1907-08 the large figure of 60 crores, an increase of 127 p.c. in fifteen years or nearly  $8\frac{1}{2}$  p.c. per year, as against the  $6\frac{1}{2}$  p.c. per year in the 14 years previous. This again is an indication of our growing industrial activity as it shows that we have been importing raw material in larger quantities to be manufactured in this country, thus giving greater employment to our labourers and larger profits to our manufacturers and merchants. All these results are summarised in the following two tables :—

TABLE No. II \*

	1897.	1892.	Percentage of increase.	
			Total.	Annual.
	Rs.	Rs.		
Manufactured Imports ...	25,98,65,827	36,22,31,872	39	2·8
Raw Imports ...	13,75,55,837	26,38,18,431	91	6·5
Manufactured Exports ...	5,27,80,340	16,42,47,566	211	15
Raw Exports ...	59,67,27,991	85,52,09,499	43	3

\* Taken from Ranade's *Essays on Indian Economics*, p. 104.

TABLE No. III.

	1892.	1907.	Percentage of increase.	
			Total.	Annual.
	Rs.	Rs.		
Manufactured Imports ...	36,22,31,872	69,88,95,000	93	6
Raw Imports ...	26,38,18,431	59,96,68,374	127	8½
Manufactured Exports ...	16,42,47,566	39,29,81,000	139	9¼
Raw Exports ...	85,52,09,499	134,12,31,335	57	3¾

Fifthly, the proportion of the imports of manufactured articles to total imports, which was 65 p. c. in 1879

and fell to 57 p. c. in 1892, fell still further to 53 p. c. in 1907-08. In the same way the proportion of manufactured exports to total exports which was only 8 p. c. in 1879 and increased to 16 p. c. in 1892 has gone up to more than 22 p. c. during the last fifteen years.

What has been said above has, I hope, made it clear that, though the improvement noticed by Mr. Ranade has not been continued within the last fifteen years in the same proportion as in the fourteen years previous to 1893, the tendency towards a transition of India from a purely agricultural land into a manufacturing and commercial country marked by him, has been steadily kept up, and signs are not wanting to show that the stimulus which in the last five years our industrial activities have received, will, in a generation or two of steady work, carry us on much further towards the goal. I have already pointed out that the grouping of imported and exported goods usual in official reports, and used by Mr. Ranade, is not suitable for a correct survey of Indian industries. Though perfect accuracy in distinguishing between purely raw materials and articles which have undergone improved human skill or mechanical and scientific operation is difficult to attain, I shall attempt to make this distinction as accurate as possible so as to gauge the degree of our progress in industrial development. Thus, for convenience' sake, I shall class sugar, liquors, metals, coal, tea, coffee, cigars, oil, &c. as manufactured goods because it is in connection with these articles that forward steps are being actually taken or are contem-

plated, and it is in the matter of these manufactures that the transitional stage of Indian industries is marked. Making the adjustments rendered necessary by this method of classification, we obtain the following results, corresponding to those given in Tables Nos. II—III.

TABLE No. IV.

	1892-93	1907-08	Percentage of increase.	
			Total.	Annual.
	Crores of Rs.	Crores of Rs.		
Manufactured Imports ...	54	116	115	7.7
Raw Imports ...	8	14	75	5
Manufactured Exports ...	26	54	107.5	7.1
Raw Exports ...	74	119	60.8	4

According to the new principle adopted in classifying goods in the above table, the imports of manufactured articles are higher here than those given in Table No. III. This is explained by the fact that in Table No. IV sugar, steel and iron, Railway material and machinery, &c. have been understood as belonging to the manufactured goods class, while in Table No. III they were relegated to the group of raw materials. As a result of the expansion of the textile industry during the last few years, the imports of machinery and mill work alone

have advanced from 4·9 crores in 1905-06 to 6·58 crores last year, an increase of  $1\frac{1}{2}$  crores in two years. The increase in the imports of raw materials as shown in Table No. IV is not as high as that in Table No. III, as many articles which are really manufactured goods have been transferred from this to their proper group. In the case of manufactured exports the increase in the Table IV is only 7 p. c. per year as against the  $9\frac{1}{4}$  p. c. in Table III as tea, coffee and other small industries now included in this group did not during the period under review, show as great an expansion as cotton and jute manufactures. The last item in the Table, that of raw exports, calls for no special remark. The proportion of manufactured exports to total exports is seen to be 31 p.c. as against the 22 p. c. mentioned before.

Thus with some variations here and there occasioned by the different method of grouping articles, we arrive at substantially the same results. The six features of a healthy change in the industrial condition of India, noticed by Mr. Ranade in 1893, are to be clearly seen in the next fifteen years, also, and though our progress during this period is not as satisfactory as one would have wished, on the whole we have been gaining ground rather than losing it. The work we have to do in the industrial field is not easy. There are so many difficulties in our path, which it will take a long time to overcome. We cannot expect all at once to be able to manufacture for ourselves all those articles which we import from foreign countries, nor



can we hope in the immediate future to turn all our raw produce into finished goods in our own land. It is sufficient if we keep our eyes steadily on the goal we have to reach and do our best with the means at our disposal. It is necessary for this purpose that our attention should be drawn from time to time to the industrial possibilities of our country as also to our failures and achievements in the field of manufactures, so that we may shape our further course in the light of this experience. I therefore propose now to take a hurried view of the present condition of our industries and manufactures, indicating in each case the progress that may have been made during the last fifteen years.

(1) Let us take up cotton manufactures first, as the textile industry is at present the premier industry of India. There were only 58 cotton mills in the whole of this country in 1878. This number rose to 130 in 1892 and the same on the 31st March 1908 was 224 with 65,741 looms and 57,64,346 spindles. Looms have, in the last fifteen years increased by 150 p.c. and spindles by nearly 72 p.c. Of the spindles nearly 72 p.c. were in Bombay, 7 p.c. in Bengal and about 5 p.c. in Madras. Of the looms as many as 80 p.c. were in Bombay. It is superfluous to say that Bombay takes the lead in this industry and is largely providing the sister presidencies with the country-made cloth they require. Cotton mills employed in 1907-08 nearly  $2\frac{1}{4}$  crores of hands besides one lakh of persons engaged in cotton ginning, cleaning and pressing mills, as against one crore and twenty-thousand

employed in the textile industry in 1892-93. The capital invested in cotton spinning and weaving concerns was approximately  $17\frac{1}{4}$  crores last year, an increase of 56 p.c. in fifteen years. Seventy-one per cent. of the cotton mills are in the Bombay Presidency, the number being nearly 150 as against the 88 in 1892. The spinning of the higher counts of cotton on an increased scale is a noticeable feature of the last few years, Bombay leading the way in this respect also. The quantity of woven cotton goods, including that turned out in Native States like Indore, Mysore, Baroda, &c., more than doubled within the last ten years. Here is then an industrial triumph of which we may with justice feel proud, and if that earnestness and that enterprise which have characterised the textile industry were extended to other planks in our programme, similar success is almost assured to us in the near future. In spite of our rapid progress in cotton manufactures, be it noted, we yet imported more than 44 crores' worth of cotton fabrics in 1907-08 from foreign countries. This shows that there is infinite scope for expansion in this department, and we shall have to strive hard for many a long year to come before we become self-reliant in this matter.

(2) Next in importance to cotton manufactures, we have the jute industry, and with respect to it, Bengal occupies the same place as Bombay does in the textile industry. The number of jute mills rose from 26 with a capital of 1'68 crores in 1892 to 44 mills with a capital of 5'41 crores in 1907. The number of

hands employed in these mills rose, during the same period, from 66 thousand to 166 thousand, the looms increasing from 9 to 25 thousand. The value of the exports of bags and cloth of jute nearly doubled in the last five years. This fact alone is sufficient to show how peculiarly prosperous this industry has been of late years. It is to be noted in this connection that the exports of raw jute have not gone up in this same proportion. The exports of jute manufactures were 46.6 p. c. of the total exports of Indian manufactured goods in 1907-08.

(3) As regards woollen mills, no satisfactory progress has to be recorded. There are at present only six woollen mills, the number of the same being 5 in 1892. The capital invested is not more than half a crore and the number of persons engaged in the industry has gone up during the last 15 years only by paltry 400. The two large mills, one at Cawnpore and the other at Dhariwal, claim between them 70 p.c. of the total capital invested in the woollen mills. This industry, it will be seen, affords a large opening for capital and enterprise. There appears to be considerable demand for woollen goods in this country, and it has to be satisfied with imports from abroad. The output of our mills is very small compared to the quantities imported. The value of woollen imports is six times as great as that of the Indian produce. Looking to the fact that we imported last year woollen goods worth  $2\frac{3}{4}$  crores of Rs. and also to the stagnant character of the industry at present, it appears to be

high time that serious attempts were made to tackle this line of manufactures more earnestly. Oriental designs are being successfully imitated in rugs and carpets in foreign countries and our goods are being ousted from the market. Something must be done to maintain the reputation of this land as the home of beautiful carpets, and we must strive to hold our ground successfully against foreign competition.

(4) There has been during the last fifteen years a remarkable development of tea plantations. The total area under tea cultivation was 3,34,825 acres in 1892-93 but this figure rose to 5,36,652 in 1907. The exports of tea were 120 million lbs. in weight worth 6 crores of rupees in 1892-93. Last year these figures were 227 million lbs. and 10.30 crores respectively. Though the internal demand for tea in India itself is continually on the increase, Indian tea is finding greater favour in Russia, Germany and other countries on the continent of Europe. China, the home of tea, is being gradually displaced from the English market, her contribution of tea to the same having been reduced from 50 p. c. to 5 p. c. in twenty years. The only serious competitor with India in the tea market is Ceylon. Coffee plantations have not shown any progress during the last fifteen years, and our export of coffee is only  $2\frac{1}{2}$  lacs hundredweights valued at 1.10 crores.

(5) In another industry again, we have been marking time. The number of paper mills was 8 in 1906. The capital invested has not appreciably increa-

sed within the last many years. The paper manufactured by the comparatively older methods in India cannot be expected to compete with the cheap wood pulp paper imported from Europe. While imports of paper were valued at nearly one crore last year, the value of the Indian output did not amount to three-fourths of this figure. Much has therefore to be done in the development of this industry. It is not merely a question of capital or demand. It is a question of up-to-date methods and materials to be used in the manufacture. The problem of supplying country-made paper cannot be solved until it is approached from this standpoint.

(6) Next we come to breweries of which there were 26 in 1906 as against 21 fifteen years previous. The outturn is 56 lakhs of gallons, an increase of 8 lakhs in 15 years. More than half of this quantity is purchased by the Government Commissariat Department, the remaining quantity being consumed by the civil population. It is estimated that two-thirds of the total production is consumed by the troops, the remaining third being drunk mostly by the European population residing in or near hill stations. The quantity of beer imported into India nearly equals that produced in the country itself.

(7) The output of Indian coal mines has been steadily advancing these many years. The quantity produced in 1892 was  $25\frac{1}{2}$  lakhs of tons, while the figure for last year was 111 lakhs, an advance of 14 lakhs over 1906. To-day the total output of Indian

coal is five-times that of 1892. The export trade in coal has never been very active in India, and while the indigenous production is rapidly growing and the exports have never been great, the imports have been expanding year after year, which is a sure sign of industrial activity, as the imported, along with the indigenous coal, is absorbed by cotton and other mills. In 1907-08 as many as 97 lakhs of tons of coal were calculated to have been consumed in India. There are more than 300 coal mines and over a lakh of persons employed in the coal mining industry, which is chiefly confined to Bengal which contributes more than three-fourths of the total yearly out-put. The iron-mining industry has also before it a hopeful prospect, and it is gratifying to note that considerable progress is being made in tapping this source of India's mineral wealth.

(8) Mysore enjoys almost a monopoly of gold mining and the value of gold extracted last year was about  $3\frac{1}{4}$  crores of rupees. The Nizam's Territory and Burma also contribute a small fraction of the total production, the share of Bombay and the Punjab being negligible. The gold imported into the country last year was  $20\frac{3}{4}$  crores as against the 4 crores of 1892. This large quantity seems to have been hoarded or sunk in ornaments from year to year and is of no use to industrial development.

(9) In the working of iron and steel mines we are to-day where we were twenty years back. It is the enterprising firm of Tata and Sons that are the

real pioneers in this industry, though the history of the attempts made so far can be traced to the early part of the last century. There are a number of very serious difficulties in the way of such attempts and it is owing to these difficulties that the ventures have failed. As hinted above, however, the new company of Tata and Sons are going on with their work in right earnest, and in a few years we may be able to give a good account of the industry, which requires in its organisers an amount of skill, scientific knowledge, enterprise, as also vast capital together with the active help and sympathy of Government. In the meantime our imports of the metals are going up by leaps and bounds in consequence of the rapid progress of the textile industry as also owing to the needs of railways.

(10) Kerosene oil has in recent times come to enjoy greater and greater popularity among all classes of people. In fact the vegetable oils along with the old-fashioned lamps have been swamped away by mineral oils. This industry is essentially of a very recent growth, and yet within the last few years it has assumed very large proportions. As an illustration of this, it may be stated that the percentages of Indian oil and that of foreign oil consumed in this country which were 4·7 and 95·3, in 1898-99, became 52·3 and 47·7 respectively in 1906-07. The total quantity of petroleum produced in India was 19 million gallons in 1897 and the corresponding figure for 1906 was 140½ millions. This is a splendid record and ought to gladden the heart of every Indian patriot. Last

year we imported from foreign countries  $2\frac{1}{2}$  crores' worth of kerosene oil while the imports coastwise from Burma amounted to  $2\frac{1}{4}$  crores. Our chief foreign suppliers are the United States and Russia, and in India itself the oil-wells are situated for the most part in Burma and Assam.

(11) Besides the industries noticed above, there are others, smaller but not less important therefore, which await development. There is every year a growing demand for refined sugar which cannot be supplied by the Indian article. With a few exceptions sugar manufactoryes are not carried on on a large scale, and the indigenous article turned out in small quantities is not able to cope with the cheaper but finer product of Mauritius, Java, Germany and Austria-Hungary. In the case of the sugar industry we have actually lost ground. Our country, which at one time exported large quantities of cane sugar to other countries, now imports both cane and beet sugar of the value of about 8 or 9 crores per year. On account of our old world manures and antique methods of growing and crushing cane we are to-day far behind all other cane-growing countries in average outturn. This shows the urgent necessity of reform in our methods of agriculture and so long as we neglect this reform, it is not possible for us to compete with the cheap product of other countries. Here only capital, scientific knowledge and enterprise will not do. The help of Government is essential, and that help will be cheerfully given if asked, say, by an agricultural association on behalf of the poor and



ignorant agriculturists who must be taught the use of the new methods and manures.

(12) As regard glassware we have to import almost everything we want in this line from outside, our imports of the same last year being valued at  $1\frac{1}{2}$  crores. This item on the import side, therefore, opens a large field before us. Last year we imported Rs. 61·2 lakhs worth of tobacco, cigarettes, &c. We have a few cigarette factories here and there, and some new ones have been very recently opened, but we have not yet been able to turn out articles that will compete with those imported from the United Kingdom, America or Egypt. Then there are other concerns of minor importance and smaller dimensions which I shall not deal with in detail. Thus we have silk filatures and silk mills, which have shown no progress during the last many years. Attempts have of late been made,—and in places they have been successful attempts—to start soap factories and match factories, candle factories and button manufactories, metal factories and cutleries, but they are too small and of too recent growth to allow a correct estimate as regards the capital sunk in them and the product turned out by them.

I have here passed under brief review the chief industries of India and have remarked on their present condition. The general impression left on the mind after a study of all the facts and figures given above, is that while we have been making, during the past twenty years, very gratifying progress in the manufacture of cotton and jute, in the working of coal and

gold mines, in tea plantation and in the kerosene industry, we have been marking time as regards sugar refining, oil pressing, iron mining, paper making, wool and silk manufacturing; and in the matter of glass, leather, umbrellas, metal manufactures, stationery, carriages, etc, we are almost nowhere. It is in the direction of these that we have now to make our way. That India yet remains a large field for producing raw materials for foreign manufacturing countries is no doubt true. But the opposite tendency which commenced thirty years ago is gradually gaining strength, and during the last five years the industrial problem has become the predominant factor in the public activities of the day. The question of the development of indigenous industries is now taken up in right earnest by the educated classes, and the whole country is ringing with the cry of Swadeshi. It is satisfactory to find that Government have also turned their serious attention to the subject, and their sympathy and co-operation have been liberally vouchsafed to us. On the whole, though the goal is yet far off, we are to-day much nearer to it than we were fifteen years ago. Whether we look at the number of mills and factories, or at the amount of capital sunk in the industries, or the number of hands employed in them or at the spread of scientific and technical knowledge, or at the demand for Indian goods, or the interest taken by the people at large in matters industrial, from whatever point of view we look at it, we arrive at the same conclusion, *viz.*, that we are making fair progress in the path of indus-

trial development, and that we need not be disheartened by a few failures which are inevitable in the beginning. In describing the present condition of the various industries, I have already pointed out where there is scope for expansion and enterprise and where there are openings for capital. I shall therefore content myself with quoting a very instructive paragraph from the small but useful book on *British India and its Trade* by Mr. H. J. Tozer, as it very tersely summarises our industrial position and points out what we must do in order to improve it. "The cotton and jute manufactures, already conducted on a large scale offer scope for still further development. Sugar and tobacco are produced in large quantities, but both require the application of the latest scientific processes of cultivation and manufacture. Oil seeds might be crushed in India instead of being exported while cotton seeds, as yet imperfectly utilized can be turned to good account. Hides and skins, now largely exported raw, might be more largely tanned and dressed in India. Again the woollen and silken fabrics manufactured in India are mostly coarse fabrics and there is scope for the production of finer goods. Although railways make their own rolling stock they have to import wheels and axles, tyres and other iron work. At present steel is manufactured on a very small scale and the number of iron foundries and machine shops, although increasing, is capable of greater expansion. Machinery and machine tools have for the most part to be imported. Millions of

agriculturists and artisans use rude tools which might be replaced by similar articles that are more durable and of better make. Improved oil presses and hand-looms should find a profitable market. Paper-mills and flour-mills might be established in greater numbers. There are openings also for the manufacture of sewing machines, fire-works, rope, boots and shoes, saddlery, harness, clocks, watches, aniline and alazarine dyes, electrical appliances, glass and glassware, tea chests, gloves, rice, starch, matches, lamps, candles, soap, linen, hardware and cutlery."

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## VI.

### THE LABOUR PROBLEM IN INDIA.\*

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An outstanding feature of the contemporary history of Western nations has been a marked advance of democracy and with it the aggressive character of the labour movement. Modern economic developments summed up by the word 'industrialism' or 'commercialism' have pushed into the forefront many serious social problems, which demand immediate attention. Whatever one may think of Socialism, it is a factor that has to be counted with. Present social and economic conditions, the tendency of wealth to concentrate in few hands, the reduction of large masses of people to the condition of human machines, the degrading nature of the drudgery which numbers of work-people have perforce to undergo, the problem of unemployment which is becoming more pressing every day, the prevailing high prices, and the general discontent of the working classes with their lot—these have even furnished a justification for some of the proposals Socialism has been pressing. One of the unfortunate and disquieting tendencies of the times is the form the struggle between labour and capital has taken. The demand for a rise of wages, and for easier and more convenient conditions of work by organised bodies of

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\* Paper submitted to the Industrial Conference, Allahabad, 1910.

workmen, begins instead of ending with a strike and threatens to throw society and the industrial world into immediate chaos. France, England, and Germany have recently had occasion to realise the power of concerted labour. Remedies, legislative and otherwise, coercive and conciliatory, have been devised to meet such unhappy occurrences and they have met with varied success. In spite of them, however, the prospect is not very reassuring. On the other hand, there is every fear that, from time to time, the labour difficulty will be seriously felt to the detriment of social peace and economic progress. Comfort lies in the hope that fresh cures may be discovered to remedy new ailments.

Fortunately for us, the day is yet too distant, if it is to come at all, when India may have to face a similar situation. We have scarcely yet emerged from our primitive conditions of industry. Custom yet rules supreme among the masses of our people. Old industries are still in the domestic stage. We are strangers to capitalism. Indian manufactures are in the embryo or sickly infants. Millions are wedded to their fields and have to emerge out of their agricultural state. Large cities and towns are exceptions, and hamlets and villages the rule. The masses are illiterate and immobile. Labour is unskilled and inefficient, unambitious and unenterprising. Capital is lacking, and shy where it exists. Organisation is unknown to both. Under these circumstances, for us the industrial struggle, on the Western lines, is a thing of the future, if it cannot be avoided. The conditions, which make for indus-

trialism are yet absent in this country. Not that there is no poverty and squalor, destitution and misery among us. We have enough of these. We have our economic and labour problems also, though of a different type. The country is undergoing a slow and almost imperceptible change in its economic condition. Among the requisites of wealth-production, labour occupies no unimportant position. We have always been laying the unction to our souls that whatever our difficulties with regard to capital, enterprise and scientific knowledge may be, we are rich in raw materials and labour, and these need give us no trouble. But latterly conditions have intervened, which show that this comfort cannot last long. And we are required seriously to consider how we may best secure the requisite quantity and quality of all the essentials of wealth-creation. It is proposed, in this paper, to deal only with the labour question in relation to the present condition and prospects of the indigenous industries.

Agriculture has always occupied a conspicuous position among the industries of India. But her manufactures have been no less conspicuous. Trades and industries have been the occupations of certain castes, and among the Hindu as well as the non-Hindu population of this country, we have had trade guilds like those of Europe in the Middle Ages. The constitution of the guilds in India has proved more rigid, though it has served the same purpose as the European organisations. In spite of the

revolutions wrought by time, the Indian guilds may be seen in their pristine condition even to-day, while their European prototypes were broken up long ago. Under the inelastic guilds, which prescribed the patterns and the standards of the articles manufactured, the industries of India reached a very high level of perfection. But the advent of the cheap machine-made goods imported from out-side, deprived them of much of their business and most of them have now become disorganised.

It may be generally asserted that we have not yet passed the domestic industry stage. Many industries on a large scale have, however, been started and there we are following in the footsteps of the nations of the West. Machinery is replacing manual labour and hundreds and thousands of hands are employed together in mills, mines and factories. Thus the Cotton and Jute Mills, the tea gardens and coal mines provide work of a mechanical kind to masses of men and women, who only contribute their physical labour. Numbers of the working classes are attracted to industrial centres and are thus induced to leave their homes. They go to tenant the densely crowded chawls and dirty slums of cities like Bombay and Calcutta. Healthy village life and occupations are deserted in favour of the alluring prospects of towns. The State has had to interfere on behalf of the labouring classes by enacting factory laws and ensuring fair and healthy conditions of the recruitment and treatment of work-people. It has found it necessary to control migration



and emigration of labourers. We are thus entering upon a new phase of industrial and economic evolution, in which, it appears, the break-up of the old system will be followed by the introduction of Western conditions. The foundations of the caste-system have been sapped and its rigidity has been relaxed. The decline of the old industries has driven thousands of craftsmen on to agriculture and many of them are finding work in the new mills and factories. Owing to over-production, dull markets or the dearness of raw materials, many of the large concerns have either to shut down for a time or lessen the hours of work. Sometimes differences between the employers and the employed create difficulties. At such times there is distress among the mill-hands. India is not an utter stranger to strikes, many of them of varying dimensions and seriousness having occurred within recent times. Indian labour, most of it being illiterate, is unorganised; but with the spread of education, organisation is bound to come. Here and there we have labour associations, but their power is yet nothing compared to that of the labour organisations of the West. Indian employers of labour on a very large scale have their organised bodies and they can act in concert if they choose to do so. The Factories' Bill now before the Supreme Legislative Council will find many strenuous critics from among the employers; but the views of labour cannot be adequately and properly represented. Indian agriculture, being yet in a backward condition, is not much affected by the change that is coming over the

manufacturing industries. But even there signs of the ushering in of a new era are visible.

From every quarter comes the cry of the scarcity and dearness of common labour. Whether it is agricultural, factory or domestic labour, skilled or unskilled, the complaint is the same. The manufacturer and the trader are handicapped by the higher wages they have got to pay to the labour they must employ. On the one hand, we are told that the potential supply of labour is ample, nay, inexhaustible, that the agricultural industry has been congested and that an outlet for that superfluous labour must be found by employment in manufacturing industries. "From inquiries instituted regarding the supply of industrial labour in the United Provinces and in Bengal, it seems that, though there is a shortage in the supply of skilled artisans, there is no real deficiency in the amount of labour potentially available, and that no difficulty in that direction need be anticipated, if the conditions of work in the mills be made more congenial to the labourer and if the manufacturers adopt more systematic method of recruitment." (Statement exhibiting the moral and material progress and condition of India, 1907-08). On the other hand, every industry is to-day clamouring for a sufficient supply of labour and the agricultural industry is no exception. The cry is the loudest in those Provinces where the commercial and industrial expansion of cities absorbs large quantities of skilled and unskilled labour. We find in the above statement the remark with regard to Bombay that

“there is shortage in the supply of agricultural labourers, who are, therefore, able to command relatively high wages.” In the Land Revenue Administration Report, Part II, of the Bombay Presidency, for 1908-09 we find the Commissioner, Northern Division, observing as follows :—“From almost every District comes the report that agricultural labour has been exceedingly scarce—a serious matter this since the dearth of labour may to a large extent lose to the agriculturist the full advantage of the extraordinarily good monsoon which has just closed.” The officials in the other parts of the Province speak in the same strain about this labour-difficulty from which the sister Provinces are not free. It is not only the skilled labourers, who are in request everywhere. Even the common coolies are becoming scarce and demand high prices for their labour. In their welcome address to His Excellency Lord Hardinge, the Bombay Chamber of Commerce adverted to this point. His Lordship, while recognising the hardship which dear labour must place on industry and commerce, pointed to the high level of prices which at present prevails and explained the dearth of labour by the increased cost of living of the coolies in large cities like Bombay. We are thus confronted with this phenomenon. There is undoubtedly an abundant supply of potential labour in the country and yet industry and commerce are feeling the pinch of scarcity. How are these two facts to be reconciled?

A considerably high level of wages of all species of labour has now become a marked feature of the eco-

conomic condition of the country. Various causes have been suggested as having contributed to bring about this result. (1) The first and foremost and the most obvious of these is the high prices of food-stuffs. For many years Indian labour has been very cheap, and that was regarded as an important asset of the indigenous industries. But high prices have raised the cost of living and wages are highest where the cost of living is the greatest. Government have had to reconsider the scale of the salaries of their servants and wherever possible, they have been enhanced. Customary wages no longer satisfy the labourer and they have considerably risen automatically. It is estimated that in the majority of cases this rise has been commensurate with the rise in prices and that the labourers are, on the whole, better off than they were a few years ago. (2) The second cause assigned is the depopulation owing to Plague. Though the havoc caused by this epidemic cannot, in any way, be compared to the destruction which resulted from the Black Death in England, the consequences have been similar in India, though on a smaller scale. Since Plague broke out in Bombay in August 1896 to the end of the-year 1908, the epidemic took no less than 61,82,796 victims. Up-to-date the mortality owing to Plague may be taken in round numbers, to have been three quarters of a crore in the whole of India. This comes to nearly 2 per cent. of the whole population in about 13 years. Though some Provinces appear to have been the special favourites of the Plague, it has claimed its toll from all, and Native States have not been

exempted. Plague is naturally the poor man's disease, though it respects neither rank nor riches. It may be easily conceived how its hand must have come heavily upon the lower classes of people, the labourers. Their ranks have been evidently thinned and scarcity has been the consequence. It is on record that "in some parts of the Punjab the mortality in 1907 was so severe as to disorganise the labour market and to affect the level of wages." (3) Another important factor that must be noted is the extension of industrial enterprise. New avenues are being every day opened to labour and it is running into a number of profitable channels. The new mills, factories, and other industrial concerns which are fast rising on all sides are creating an increasing demand for labour. Skilled workmen are not easy to obtain and they everywhere command a high price. Even unskilled labourers are pressed into service for want of better material. These latter are needed in large numbers for railways, canals, public buildings, and such other works and the increasing commercial activity of our large towns is, to a great extent, also responsible for the enhanced demand. (4) On account of Plague, scarcity and the prospect of higher wages, the labouring population has begun to show greater mobility. The migratory movements of labourers have indeed become a noteworthy factor during recent years, and are reported in almost all Provinces of India. With regard to the United Provinces, it has been stated that "the increased migration from the Eastern Districts and from Oudh

to Bengal, Assam and Burma, has rendered the population less dependent on agriculture, as the emigrants remit substantial sums to their relatives." This is besides the fact that "during 1907-08 in spite of famine conditions, labourers were able to find large amount of work at good wages, owing to the large demand in factories and elsewhere." In the Punjab, we read, "labour becomes more mobile every year and labourers move of their own accord to places, where remunerative employment exists." In the Central Provinces and Berar, "labour is being attracted from the villages to towns, where sufficient labourers cannot be obtained although the rates of wages have greatly advanced during recent years." In Bombay "the commercial and industrial expansion of cities like Bombay, Karachi and Ahmedabad, the growth of mining, and the construction of public works offer a wider field every year for skilled and unskilled labour." This tendency of labour to migrate to new fields has been emphasised in the reports of Commissioners and Collectors in the Bombay Presidency. To quote a few typical instances: The Commissioner, Southern Division, says:—

"The people of jungle villages in the Mallad Talukas of Belgaum and Dharwar are reported to be gradually leaving their villages in search of employment, which trade-centres like Hubli and the Railway can supply.....Bombay as usual furnished employment to very large numbers of labourers from Colaba and Ratnagiri."

We read in the report of the Assistant Collector, Nasik :—

“Many of the able-bodied cultivators, (from Sinnar Taluka) especially Dhangars from the east, ‘go to Bombay to ply their carts for hire or work as coolies.’ This year (1908-09) a special attempt was made, by careful inquiries in each village, to estimate the number of such emigrants. Out of a population of 73,564, it was ascertained that 10,091 went to Bombay, while 3,832 went to work on the Godavari Weir and canals. Thus, nearly twenty per cent. of the entire population left their homes for five months.”

While these migratory habits are to be welcomed as giving remunerative employment to many who would have had little or no work in their villages, as helping the development of industry and commerce and as making the immobile village people more active and enterprising, to their own advantage, it cannot be forgotten that agriculture suffers owing to a scarcity of local supply of labour. The agricultural employer has to pay unusually high wages to procure the necessary quantity of field labour. It is reported that in Broach, where most of the field labour has to be imported from Kathiawar or Kaira, it is said to be not uncommon for a man to obtain eight annas a day for mere weeding. The migrations of labour, inevitable and useful in themselves, have not, therefore, proved an unmixed blessing to many localities. The emigration of coolies to Assam, under the strict supervision of Government causes a considerable movement of labour every year.

“The number of emigrants of all classes recruited in Bengal, Madras, Central provinces, the United Provinces and the adjoining Native States embarked at Goalundo during the year ending 30th June 1910, was 33,744 as compared with 56,791 in the preceding year. The decrease is attributed chiefly to the greater prosperity of the labouring class on account of the good harvests generally obtained in the recruiting districts.” It is stated that the labourers recruited from the various provinces to work as coolies in the gardens get good opportunities of improving their condition, which they would not have obtained if they had stayed at home and that many of them become happy peasant proprietors. Government is doing the proper thing in controlling the recruiting agencies employed by the tea planters and in vigilantly watching their operations in the interests of the coolies. There can be no doubt that this immigration to Assam from distant parts must exercise an energizing influence on the inert and unambitious mass of labour thus recruited, and make it more active and enterprising. But it must be noted that the emigration of best coolies from Madras is tending to make labour scarce in some districts and the same wages have to be paid for inferior labourers. It cannot but have a detrimental effect upon the industries of the Province. It is needless to say anything here as regards the emigration of coolies to British and foreign colonies. Large numbers of Indian labourers emigrate every year to develop the resources of Mauritius, Natal, British Guiana, Fiji and other places and they must restrict.



the local supply of labour. It is curious to see that while there is a pressing demand for all kinds of labour in their own country thousands of Indian workmen choose to emigrate to other lands. Either Indian employers do not take sufficient trouble to secure all available labour in the country, or the colonies afford better prospects to the labourers. The new restrictions in the Colonies it is said, are producing a deterring effect upon emigration. This may slightly relieve the pressure now being felt by the indigenous employers of labour.

The condition of the labourers, it is asserted, is improving under the *regime* of high wages. But there are no indications of greater efficiency to be seen anywhere. The operative or the cooly gets better wages not because he works more or better; but because the employer has no choice in the matter and has to pay what is demanded. However intelligent and clever the craftsman may be, the inefficiency of the common Indian operative has become notorious. He has become conscious of his own importance and value to his employer, and good, bad or indifferent, he wants to get the highest price for his labour. The demand being in excess of the supply, the labourer finds himself in a position to dictate his own terms. The inefficiency of the labour is a serious drawback in our industrial position, and coupled with high rates of wages, works as a handicap on the manufacturers. It is difficult to estimate accurately the comparative efficiency of the Indian and the foreign workman. But the impression

of outside observers is not favourable to the Indian operative. A large proportion of the mill-hands of Bombay, for instance, are men of the agricultural class. Each one has a piece of land of his own or the property of a joint family, and it is found that they have to absent themselves from work in the mills for months together for the sowing and harvest season, even without leave. They are not thus entirely dependent for their maintenance on their employment in the mills. Their going away to their up-country homes from time to time must disorganise the work and the employers be greatly inconvenienced. A recent European visitor to India, with wide experience of European conditions of manufacture, after watching closely the working and management of the cotton mills in Bombay, has recorded his opinion about indigenous labour, which is far from creditable to it. He says that Indian labour is irregular and inefficient. The workmen are lazy to come to the mills. He saw much loitering about the mills and little energy in the operatives. Their living is very cheap and few of them can read. Climatic conditions, which do not allow continued work, are a factor, which must not be lost sight of in setting up comparisons between the Indian and the foreign workman. Efficiency of labour and management has raised the English textile industry to the pink of perfection. In spite of the difficulty of having to import raw material from outside, Lancashire can out-bid foreign manufacturers, both in the cost and the quality. This is easily explained by the calculation that the production of a

mill in India is only 65 to 66 per cent. of that of an English mill, though many more operatives are engaged. It is stated that the operatives are careless and their moral tone leaves much to be desired. Many of them become the victims of money-lenders. It is further calculated that in India it takes five or six men to do the work done by one Lancashire operative. If this estimate of comparative efficiency be correct, it is obvious that Lancashire must out-bid Indian manufacturers, so long as there is no improvement in the indigenous labour. The position of the Indian mill industry is peculiarly difficult. With the rise in wages, there has been little rise in efficiency, both of labour and management. With the increased foreign demand for cotton, the price of the staple must go up. Outside demand for the product of the mills is not extending; it may perhaps contract still further. The internal demand also is not satisfactory. Under these circumstances the inefficiency of labour must prove very detrimental to the indigenous industry in the face of foreign competition. The same remark holds good in the case of the other industries in the land.

The three points that have to be noted in connection with labour in India are (1) its scarcity, (2) the high wages demanded, and (3) its inefficiency. As regards the first, it may be said that the present scarcity is only a passing phase and like the new Colonies India need not have any fears on the score of a permanent shortage in the supply. As new industries are started, and their number must in-

crease from year to year,—the demand for labour, both skilled and unskilled, is bound to go on increasing; but at the same time the sources of supply will prove sufficiently elastic. Already the tendency of labour towards mobility is becoming more marked. Facilities of communication and the general social progress of the country will tap fresh sources of labour. The large numbers of coolies who emigrate to other lands may be induced to remain in the country by favourable prospects. The movement of elevating the depressed classes will supply large numbers of workmen who are shut out to-day from most of the industries on account of the restrictions of caste and are therefore confined to degrading occupations. This source alone will bring into the field a large contingent of sturdy coolies and operatives. It will, no doubt, take time to kill the prejudices against them; but they must die ultimately. Another source of supply, which may be confidently looked forward to in the future, lies among the large classes of sturdy beggars who lead an idle life and thrive upon the misplaced charity of a naturally generous people. The trade of beggary is plied by lakhs of lubbers and is consecrated by long custom and superstition. It has become a hereditary calling with certain classes, who feed upon the charity of the well-meaning pious. As time goes on idle beggary must cease. The State may even be asked to interfere in the matter and check the evil. Public opinion will certainly tend to discontinue indiscriminate charity and the ranks of the drones and do-nothings will be

thinned. The thousands of the so-called Sadhus, who neither spin nor weave, and do no service to society have no claims upon it for their maintenance. In the future, workmen will also be recruited from the ranks of people who at present do no useful work. Employers of labour will have to tap labour sources by means of organised recruiting agencies on the lines of the tea planters in Assam. From day to day the recruitment of coolies must prove a difficult operation. But there is no reason to fear that the supply will fail. The potential supply is large and must prove adequate if properly negotiated. A more extended use of labour saving machinery will also relieve the present pressure of demand to a considerable extent.

The high wages of labour have apparently come to stay. The consciousness of his importance, which has dawned upon the workman, and to which reference has been made above, as also the high prices and the increasing demand, will not allow of any reduction in the present rate. If anything, wages will mount up still higher as years roll on. The Bombay Government observe :—

“Labour has become more mobile and the labourer more independent. The struggle between the Bhils and their masters in West Khandesh, referred to by the Commissioner, C.D., wherein the masters are endeavouring to maintain a time-honoured system of contracts and advances, is a phase which is typical of the changes that are occurring all over the Presidency. In the Surat District, the Anavala Brahmin is losing the

services of his halis or hereditary serfs, and everywhere customary tasks at customary wages are giving way to free contracts." (Government Resolution on the Land Revenue Administration Report, Part II of the Bombay Presidency, including Sind, for 1908-09.)

This tendency towards independence and enterprise is not equally marked throughout all parts of the country. In many places there is still a complaint about immobility and want of enterprise among the labouring classes. But the general impression is the other way. Higher wages mean greater cost to the employer and the general consumer in the country. The employers of labour and manufacturers will have to count with wages as an important factor, adjust themselves to the new conditions and effect economies, wherever possible.

The inefficiency of labour is a serious factor in the situation. Higher rates of wages will not matter much if they are accompanied by a higher degree of efficiency. How to make Indian labour more efficient is a problem for serious consideration. Efficiency implies physical capacity and stamina, regularity and punctuality in attendance, a sense of responsibility and honesty, skill and activity, carefulness and concentration and such other qualities. Ignorance is responsible for many of the habits, which mar the economic usefulness of the operative. Spread of primary education among the people of the country will help to remove at least some of the causes of complaint. Education has gone a long way in making the working classes of Western countries what they are. Organisation and co-operation for self-improvement

among Indian operatives cannot be thought of until education creates in them a consciousness of their situation and their needs. We see, here and there, instances of employees on railways and tramways, in mills and factories, going on strike as a protest against the conditions of employment and they evince a dawning sense of the usefulness of concerted action. But operatives in India must start organisations on the lines of the trades unions of the West, not only for presenting a solid front to their employers, but for mutual relief and the common good of their fraternity. The efforts that are at present being made to encourage education among the backward classes must make workers more efficient than they are at present. Special manual training and technical education will also act favourably on the economic development of the country. Various forces are at work in the land, tending to improve the condition of the agriculturist, the artisan, the operative and the coolie. The State, the employers and the public spirited citizens must come forward to assist in the amelioration of their condition. Special responsibility lies upon the employers, who must see that their workmen find conditions of work congenial to them and that they are as efficient as they can be. The question of the extension of elementary education is the most urgent and it must be seriously taken up in the interests of the economic and industrial development of the country. Efficient labour plays an important part in the production of wealth. It is needless to say that the indigenous industries will be more prosperous and the

people happier in proportion to the degree of the efficiency of labour.

An attempt has been made, in this paper, to indicate briefly what is the position of our industries, so far as labour is concerned, to show what are our drawbacks and indicate the ways in which some improvement may be made. The days are gone by when labour as a factor in production was not a subject of anxiety. In these days of keen competition, and an economic upheaval all over the world, everything that is concerned in industrial progress, capital, enterprise, scientific knowledge, and efficient labour, requires close attention. The subject of labour does not appear to have received the important consideration it deserves. But the higher rates of wages, the scarcity in the supply of skilled and unskilled labour, and the new social and economic changes, that are coming over the country, are slowly revealing the importance of the problem. The labour troubles and the general labour movements in the Western countries also are calculated to make us think over the subject. This paper is no more than an humble attempt to state the case of Indian labour and invite attention to the question.

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## VII.

### THE BREAKDOWN OF BOYCOTT.\*

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During the last two or three years no two words have been oftener used and misused in the Indian public press, on the political platform and even in the pulpit, than Swadeshi and Boycott, if of course we except Swaraj and National Education. The Annual Review of the Trade of India for 1907-08 which has been recently published led us to look into and examine the figures given therein and to seek any signs of improvement or otherwise in our economic position that may be discovered therefrom.

We propose to find out what progress the Industrial Movement has made within the last three years and what influence, if any, has been exerted by the much-vaunted boycott on the situation.

What is its effect (as distinguished from Swadeshi) on the imports of foreign articles against which a regular crusade has been conducted with so much persistence for the last three years? We give below a table showing the values of some thirteen of the principal articles imported into this country during the last five years, commencing with 1903-04.

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\* *Indian Review* for December 1908.

Statement showing the values of thirteen of the principal articles imported into this country during the last five years.

No.	Name of article.	Year 1903-04.	Year 1904-05.	Year 1905-06.	Year 1906-07.	Year 1907-08.
		Rs.	Rs.	Rs.	Rs.	Rs.
1	Sugar	5,93,58,000	6,90,27,319	7,77,45,199	8,73,81,164	9,22,70,000
2	Hardware and Cutlery	2,32,78,000	2,37,92,000	2,26,67,000	2,66,05,000	3,16,54,000
3	Tobacco	49,59,000	55,63,000	66,09,000	69,33,000	84,36,000
4	Apparel	1,99,57,571	2,23,99,627	2,21,76,885	2,11,22,755	2,58,30,000
5	Carriages and Carts	43,53,866	55,02,106	76,81,128	92,46,548	1,18,00,000
6	Glass and Glassware	99,20,759	1,12,57,101	1,12,47,108	1,21,14,108	1,44,52,000
7	Leather and Manufac- tures of Leather	26,19,633	25,21,909	30,60,820	32,58,681	38,33,389
8	Matches	50,61,057	48,95,283	58,83,257	63,12,731	73,77,000
9	Paper and Paste Board	52,18,396	64,37,288	70,48,478	80,11,105	99,24,000
10	Soap	26,56,673	27,23,705	31,90,890	32,28,156	41,72,147
11	Stationery	37,08,048	36,77,860	37,77,433	40,40,347	44,38,000
12	Umbrellas	24,58,877	18,95,064	19,79,269	18,85,939	19,96,769
13	Umbrella Fittings	...	...	14,32,652	23,63,688	25,90,873

We admit that three years is not a sufficiently long period to appreciate the effects of any movement,

political or industrial. But the figures of the imports and exports of merchandise for the last three years will serve to show how the wind is blowing, what are the general tendencies of manufactured imports from foreign countries, and what are the prospects of the Swadeshi and the Boycott Movements. Now take up the first article in the table given above. It must be remembered that sugar, next to cloth, has been the chief object of the attack of the boycotters, and there is no weapon, social, religious or political, that has not been made use of against foreign sugar. The sponsors of boycott were aware from the first that India has not, and is not likely to have, in the immediate future, the means of meeting the ever-increasing demand for sugar among our people and of competing, with any success, with Mauritius and Java. And yet, even the superstitions of the people were worked upon to discourage the use of the article, even when they knew that there was much smuggling practised in the sugar trade here. In spite of these frantic efforts, however, the imports of sugar expanded by nearly 96 and 61 lakhs of rupees during 1906-07 and 1907-08 respectively. The advance in 1907-1908 is not in proportion to the average increase of previous years, but this is accounted for by a shortage of crops in Germany and Austria-Hungary, whose share declined from 21·7 to ·82 per cent. of the total.

It is remarkable that in a cane-growing country like India the price of imported beet should continue to dominate the market, even when the imports of cane-sugar continue to advance at its expense and represent in the year under review (1907-08) no less than 92·1 per cent of the total. As a producer, it would seem

that India is losing rather than gaining ground. She is far behind all other cane-growing countries in acreage outturn, and unless this is improved, the creation of more factories for the scientific crushing of cane to supersede the wasteful and primitive methods of manufacture from *gur* will not be sufficient to prevent increased competition on the part of imported sugar, and particularly of cane sugar, from the adjacent markets of Java and Mauritius.\*

Though the total production of potential sugar in India is large, yet the outturn of raw sugar per acre under cane is 1.25 tons as compared with 2 tons in Cuba and 3.44 tons in Java and 4.02 tons in Hawaii. Here there is a vast field for the Indian patriot. If some time and energy were devoted to helping the poor and ignorant agriculturists in adopting the improved and scientific methods of sugar cultivation and manuring, it would be a real and solid service rendered to the cause of Swadeshi. Governments in the various parts of India are quite willing to give necessary assistance in this work; but will the boycotter deign to apply to Government for aid in the matter? Agricultural reform is a difficult work, but at the same time a work of the utmost necessity and importance to us. To neglect this agricultural improvement and industrial reform, and to create an artificial demand for a thing which does not exist, is only to place the cart before the horse, if nothing worse.

Going next to hardware and cutlery, we see that there is a continuous increase in the imports in the last three years. This head covers lampware, the value of which showed an increase of Rs. 3.3 lakhs or of 14 per cent in 1907-08 over the year previous.

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\* Review of the Trade of India in 1907-08, by C. W. E. Cotton, I. C. S.

There was in the beginning, a senseless crusade even against mineral illuminants, and the boycott in this instance has naturally collapsed, as it deserved to be. The values of imports of cutlery alone have increased by Rs. 3 thousand and 4·21 lakhs during 1906-07 and 1907-08 respectively. Here again a mere boycott, not accompanied by any appreciable attempt at larger production, has failed, as it was bound to do in the existing state of things. The imports of metals show a considerable advance and the steady increase in the values of the various classes of machinery imported into India in the last three years betokens the growing industrial activities of the country. Under textile machinery alone there is, in the last year, an increase of Rs. 36·3 lakhs. The demand for steam engines, for mill work, and for electrical and mining machinery is steadily increasing.

This is not a place to discuss whether smoking is on the increase in India, nor to say how it affects the health of smokers. One fact seems to be clear and it is this. The smoking of cigars and especially of cigarettes is becoming more and more fashionable among all grades of Indian society. We imported something like Rs. 23½ lakhs worth of cigarettes alone in the year 1902-03. This figure was almost doubled in 1907-08, the value of imports of cigarettes being Rs. 61·2 lakhs last year. Among the hundred and one articles proscribed in Bengal after the partition, cigarettes occupied a prominent place. As a result of the boycott then promulgated, we were told by the Bengali papers,

that the *ghariwallas* had given up the fine but foreign article and had taken to the indigenous 'bidi.' The *bidi-wallahs* were represented to be making a roaring trade in the Swadeshi article. It may be that a few *bidiwallahs*, as a result of the boycott, got more customers or that a few more got work in *bidi*-making. But that is not the way of developing industries. And what is the position now? The *belati* cigarette has once more rehabilitated itself. Apparently the cigarette has come among us to stay. It is no use asking people to go back to the primitive *bidi*. We must manufacture our own cigarettes. Cigarette factories have, no doubt, been recently opened at Monghyr, Karachi and other places also. But a greater and a more systematic attempt has to be made to compete with the pretty articles imported from the United Kingdom or the United States. The United Kingdom is the premier country in the production and supply of cigarettes and its share has gone up from about Rs. 28 lakhs in 1905-06 to Rs. 30 lakhs in 1906-07 and Rs. 43 lakhs in 1907-08. There is here a miserable failure of the boycott of foreign articles and particularly of British goods.

Under the heading of Apparel there was a small decrease for the two years 1905-06 and 1906-07 but it was more than made up last year, the increase for 1907-08 being Rs. 47.06 lakhs. Under carriages and carts, which includes Motor Cars and Motor Cycles, there was a greater proportionate expansion, of Rs. 25.53 lakhs or 27.6 per cent. That cycles are becoming more popular among our people is shown by the expanding values of

imports, the value of cycles imported in 1907-08 exceeding that for the previous year by Rs. 2·04 lakhs. In the manufacture of glass and glassware we are nowhere, having imported these to the value of nearly Rs.  $1\frac{1}{2}$  crores as against about one crore in 1903-04, the increase for last year alone being almost a quarter of a crore. In spite of the much-advertised and much-bepraised boycott meetings and the boycott oaths of our women folk, glass bangles showed a marked expansion of nearly Rs. 13 lakhs in 1907-08. A few glass factories are being talked of as in the process of formation and some small concerns have been actually started. But the demand that has to be met is very large and the boycottter will find an extensive field for his energies if he has an inclination to turn them in that direction. A number of match factories have been started in India and now-a-days the article is much in evidence in the market. Yet the competition of the foreign manufacturer appears to be very keen and the imports expanded in the last two years by about Rs.  $4\frac{1}{4}$  and Rs.  $10\frac{1}{2}$  lakhs. The indigenous manufacture does not seem to have produced any impression on the imports and there is a wide scope for expansion here also. In order to be effective, the attempt must be made on a more comprehensive scale. The import trade in paper and paste-board shows an equally marked advance, the increase last year in printing paper alone being Rs. 8 lakhs. A taste for reading books and especially newspapers is being cultivated in the country, and hence the larger demand for printing

paper. Here also we are far behind in the race and no serious attempt appears to be made to meet the ever-increasing demand. It need hardly be said that in spite of all tall talk about using Swadeshi paper and the showy and aggressive "Nationalism" of not a few newspaper editors, we have yet to look to foreign countries for the supply of means to publish our ideas about boycott of foreign goods and that too in a greater and greater measure.

Looking to the simple art of soap manufacture and the advertisement of a number of soap manufactories, one would have expected to see a decline in import figures in the case of that article. As a matter of fact, however, the value has gone up by Rs.  $9\frac{1}{2}$  lakhs in a single year. This increase is out of all proportion to the average increase of the last four years and is therefore inexplicable, having regard to the indigenous manufacture of large quantities of soap. The habit of using soap is fast spreading among all classes of people in this country and there is no reason why the demand should not be supplied by Indian manufacturers. There is an equally extensive field in the manufacture of umbrellas which are coming into the country in larger and larger quantities. Some well-meaning enthusiasts have been seen reverting to the old fashion of using cheap "Singapore" umbrellas or covering themselves with blankets. But the march of civilization seems to be too much for them and Chinese and Japanese umbrellas are speedily going out of fashion and their imports are fast declining. Not much perceptible



progress seems to have been made in umbrella-making in India and the field stands open to manufacturing skill, enterprise and capital.

We have thus dealt with nearly twelve or thirteen of the principal articles of import in this country and have been able, we believe, to show that boycott has failed as far as the figures for the last three years go. We have no desire to chuckle over the fiasco. We only regret that so much ink, paper and breath, not to speak of time and energy, have been wasted in preaching a crusade against articles of foreign manufacture when we were not in a position to supply even a fraction of the ever-increasing demand for those articles. No body condemns boycott because sugar refiners of Mauritius or Austria-Hungary are likely to suffer or because millhands in Manchester or Lancashire will have to work short hours. Whose heart would not rejoice if India were to supply her own increasing wants without help from outside? India's industrial problem, however, does not lie in curtailing wants or confining them to a few necessities. Our industrial and economic prostration is due not to a lack of demand but to a lack of supply. Indians are, after all, human beings and their patriotism has its limits. Demand is, no doubt, one of the essentials of production, but here in our country we have demand enough and to spare. We recognise that infant industries must have patronage and support. We also own that the beginnings of great things are small and should not therefore be objects of ridicule. Having conceded all this, we fail to see what

purpose boycott is intended to serve as a factor in the economic development of India. You cut off the demand for foreign goods and there is a temporary fall in the import business. It is, however, only the lull before the storm. Larger quantities flow into the country in response to a demand for them which can never be put down as long as human nature is what it is. There are scarcely any instances of industries started in India and conducted on the modern methods and on the proper scale having languished or died for want of demand for the articles turned out by them. There is indeed no hope for the old-world industries, carried on under the old-world conditions and in the old-world ways. They are for ever doomed. It is no use sighing for them or mourning over their ruin. A welcome sentiment in favour of Swadeshi articles has no doubt been recently created ; and that sentiment is being carefully nourished by the Congress ; but sentiment is not capital, sentiment is not technical skill, sentiment is not enterprise, sentiment is not commercial integrity. We have yet to acquire these things and boycott is not calculated to help us in the acquisition. The true Swadeshi spirit has long been abroad in the land and what little progress we see in our industrial development, is entirely its fruit. The strain that boycott puts on the nerves of the nation must last for a short time and must leave the people exhausted and enervated after the frenzy is dispelled by the cold logic of facts. That the boycott propaganda has done absolutely no service to the cause of

India's industrial development is amply shown by the figures of the imports of the boycotted articles in larger quantities. What little impression was made in the beginning vanished immediately it was made, and to-day we are none the better for all the nerve-straining and passion-exciting which it entailed.

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## VIII.

### SWADESHI AND BOYCOTT.\*

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I find that my article on the "Breakdown of Boycott" which appeared in the December number of this Review, has attracted some attention and has evoked a good deal of criticism, both friendly and hostile. I am glad that none of the critics who have essayed to assail my position, has been able to point to a weak point or an unsound conclusion. Under the circumstances, I should not have deemed it necessary to write anything further on the subject, if it had not been for the fact that there has been much confusion and misunderstanding created about the nature, scope and effects of Boycott and Swadeshi. The views held about Boycott by writers on the subject, are so different that they almost touch every extreme, and my article on Boycott has, therefore, been attacked from various sides. One critic ignorantly questions the correctness of some of the figures I have quoted. Another, not having grasped my point, charges me, through a misunderstanding, with having suppressed a particular set of figures. A third declares that Swadeshi and Boycott are identical and should not have been distinguished from each other. A fourth says that the Indian Boycott is directed against English goods only, and figures

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\* *Indian Review* for June 1909.

connected with the imports of those goods alone, ought to have been taken into account. A fifth states that the Indian Boycott is a universal Boycott, and as such, is levelled against goods coming from all foreign countries such as Germany, Austria, America and even Japan. A sixth class of writers make the Indian Boycott what they call an "Economic Boycott." In this chaotic condition of the common conceptions about Boycott, it has become necessary to clear the ground before we approach the question really at issue. Mr. R. K. Prabhu who has attempted a reply in the current month's *Modern Review* concedes the whole position when he says that "Boycott as it obtains in India, is no Boycott at all in the real sense of the term." One of the grounds of those who have, from the first, been opposed to Boycott in this country, has been that an Indian Boycott, in the peculiar circumstances of the country, besides being harmful, is impracticable. If we go into the genesis of the Boycott movement in Bengal we shall find that it was based on the feeling of resentment and protest against the partition of that province. Even if we leave aside the Boycott of Bipin Babu and his disciples—a Boycott of every thing British,—as being chimerical and preached by only a handful of political visionaries, we still have many people advocating Boycott as a threat to British manufacturers and indirectly to the British people. There is the idea of touching the pocket of John Bull and thus rousing his self-interest into making him see with his own eyes what is doing in India. Boycott is no Boycott if it is not based on

resentment, on a desire to retaliate, to punish. By all far-sighted people such a political Boycott in India was declared from the outset as futile in the peculiar condition of the country, political, social, religious and industrial. But in the impulse of the moment, the Bengalees, inspired by the example of China and other countries, declared a boycott of English goods, and even now writers are not wanting who point to the Turkish Boycott of Austrian goods as an illustration and also a justification of the Indian Boycott. An "Economic Boycott" as some euphemistically call the Indian movement, is only an after thought. Such a political Boycott—and a Boycott cannot be anything but political—has very little in common with Swadeshi, which is a pious movement to start, encourage, and foster indigenous industries by all available means, with help from all quarters and calculated to improve the economic condition of the country. While Boycott is political, Swadeshi is economic; Boycott has its life in a desire to retaliate upon and punish others, Swadeshi only seeks self-improvement; Boycott bespeaks resentment at another, Swadeshi implies love of one's country; Boycott to be successful, must at once be complete and all-absorbing which is not practicable, Swadeshi succeeds by slow but sure steps; Boycott, from its very nature, is calculated to be temporary, Swadeshi continuous; Boycott is militant, Swadeshi peaceful; Boycott has been, from the very beginning, considered as a political weapon to be used for political purposes, Swadeshi has been all along a pacific policy

of self-improvement. Whether a Boycott of English, or for the matter of that, all foreign goods, is practicable or desirable, I did not and do not here care to consider. It may be beneficial in its effects as some contend, or it may not. I do not wish to say anything on either side. What I am concerned with is the fact that Swadeshi is distinct from Boycott with which it is attempted to be identified. Let there be no misunderstanding on the point. The critic in the *Modern Review* acknowledges that "the Indian Boycott though originally meant to be directed against British goods alone, is now directed against all foreign goods." It is thus only a later development that Boycott has come to be understood by some to be only an "emphasised form of Swadeshi." But the very fact that we have been speaking of Swadeshi and Boycott as two distinct things not only in Bengal but in all parts of India, and that two distinct resolutions on these two movements have been insisted on in all Meetings and Conferences, goes to show that a clear distinction has always been made and recognised between the two. If it were not so, the fuss made over the famous "four resolutions" would have had no meaning and the row that has been kicked up because the Madras Congress gave the Boycott Resolution the go-bye would be inexplicable. The very wording of the Congress resolution about Boycott clearly shows that that body understood it to be a protest against the partition of Bengal and nothing more and that it was calculated to have no economic significance.

The Swadeshi movement being thus distinct from the Boycott propaganda, on account of the nature, the scope and the motives with which the two are conducted, the success of one is quite compatible with the failure of the other, and one need not be horrified if it is said that while Swadeshi is making fair progress, Boycott has broken down. Some writers point to the larger production of Indian cloth as an argument to prove that Boycott has succeeded. They might as well assign the Indian Boycott as a cause of the acquisition of a Parliament by the Turks! When we boycott a nation or nations, we must have nothing to do with them and their goods. An as-far-as-possible Boycott is no Boycott at all. It is a mere self-deception. It is after three years that Boycotters have come to realise this, and they are now trying to hide themselves behind Swadeshi saying that their Boycott is only Swadeshi emphasised. There are indeed many people who see in Boycott only another form of Swadeshi and who do not appreciate the difference between the two movements. Such people will, I hope, grasp the situation by the light of the explanation I have given above. They will please note that the breakdown of Boycott does not involve any loss to the cause of Swadeshi, which is steadily making progress on its own lines. The *Praja Bandhu* of Ahmedabad would not have thought of criticising my article if he had realised that though I spoke of the breakdown of Boycott, I had nothing but praise for its views about Swadeshi which I thoroughly endorse. I



wish to emphasise my view that Swadeshi contains everything that is essential for the healthy growth of nascent industries. Swadeshists are understood to have pledged themselves to give preference to Indian over foreign goods even at a sacrifice and to help in creating new and reviving the old industries of the land in all ways possible. A failure of Boycott, on this view of Swadeshi, does not reflect any discredit on the latter movement.

It was in 1905 that Bengal inaugurated the Boycott of English goods as also those coming from other countries. Enthusiasts from other parts taking their cue from Bengal, followed suit and made bonfires of *belati* articles. Foreign goods were anathematized and a regular crusade was carried on against them. How are we to estimate the effect of this Boycott? Certainly not by the increased production of Swadeshi articles such as cloth. If the movement against the use of foreign articles has succeeded, the imports of those articles ought to decrease. If, on the contrary, these imports show a tendency towards an increase, the movement has, we may conclude, utterly collapsed. A boycott of foreign goods practically amounts to a high and prohibitive import duty on such goods coming into the country and the only way to judge how far such a preventive duty has been successful is to see whether or not the imports have fallen off. If the imports of the duty-prohibited or boycotted goods go on increasing for three successive years, it is a conclusive proof that the duty or the Boycott has been an utter failure.

I have, in my last article, quoted the figures of thirteen articles of import against which the Indian Boycott was specially directed, and shown that no impression whatsoever has been made upon them. The imprecations of Boycott could repel the tide of foreign imports no better than did the commands of the flattered king drive back the waves of the sea from the foot of his throne. It is futile to point to the increase in the number of Indian Cotton Mills and the larger production of cloth in them as a proof of the potency of Boycott. It is the triumph of Swadeshi, in which prince and pauper, Government and people, individuals and institutions have been working in "co-operation. Swadeshi will go on making progress, though the Boycott has collapsed. Now that the futility of the Boycott propaganda has been brought home to its advocates will it be too much to expect that they should give up merely talking about it, as they have been so long doing? They will do well to use their pens and lungs in the cause of Swadeshi. The luxuriant growth of industries that are fast spreading in all parts of the country is the outcome of the seeds of Swadeshi that were sown in the soil many, many years ago, and had it not been for it, even the little plausibility that some see in the blatant boast of Boycott would have been impossible.

That the Governments of the various provinces have come forward to help the cause of indigenous industries is, we hope, not attributed to the Boycott agitation which has often sought to proscribe all connection with those very Governments! The

Government of the United Provinces has been trying to solve the problem of sugar manufacture, the Bengal Government is moving actively in the matter of encouraging industries in various ways and they have recently addressed a letter to all officers asking them to encourage Swadeshi articles by giving contracts preferably for the same whenever possible. The latest step of the Madras Government is the appointment of a Committee of Experts to inquire into the possibility of establishing chemical industries in the various parts of the Presidency. The question of scientific and commercial education, it is now well-known, is engaging the serious attention of the Bombay Government. All these are steps in the right direction and every Indian ought to feel proud of the progress indicated by them.

What genuine Swadeshi spirit can do is well illustrated by the textile industry of Bombay which was started long, long before the birth of Boycott in Bengal. The production of cotton manufactures, both yarns and piece goods, has nearly doubled within the last five years and exports of the same which stood at  $14\frac{1}{2}$  crores of Rs. in 1905-06 declined to 12 crores in the next year and to  $10\frac{3}{4}$  crores in 1907-08. This means larger quantities were absorbed in the country, the indigenous production of China also having contributed to this result. Bombay mills were able to clothe the sister Provinces with their produce and the lakhs of yards of cloth that have been sent to Bengal and Madras bespeak the triumph of Swadeshi in Bombay.

The industrial movement has long taken root in that Presidency, thanks to the efforts of men like the late Mr. Justice Ranade and other patriots, and the enterprise, experience, skill and capital of Bombay Mill-owners are now bearing fruit. Other places are following in the wake of Bombay and the prospect before the cotton industry is most hopeful. The spindles in Bombay looms are ten times those of Bengal and thirteen times those of Madras. Of the looms 52,436 are in Bombay, 781 in Bengal, and 1,748 in Madras. In the past ten years the number of looms has increased by about 76 per cent. against 29 per cent. for spindles. In spite of this large output the imports of cotton fabrics are going up from year to year. There was, no doubt, a fall in 1906-07 amounting to Rs. 1 crore and 32 lakhs from the figure of the previous year; but this was more than made up in 1907-08 when the imports rose by Rs. 6½ lakhs. We may expect a fall in these imports this year also. Perhaps there has been over-production in Lancashire and owing to the recent famine in the United Provinces large stocks of the imported cloth are likely to be undisposed of in the godowns. Whatever the cause of this set-back, whether a larger demand for Swadeshi goods or otherwise, the figures at any rate show the vast field that lies before Indian manufacturers. The imports of cotton goods represent more than one-third of the total imports, and there is immense work to be done in occupying this field. This means solid, silent, constructive work, a true Swadeshi effort. It means the

production of larger quantities of cotton of the higher counts, which again means agricultural reform and development. We thus again come back to the real, pious Swadeshi, as opposed to the vapourings of Boycott.

The Jute Mills in Bengal are also doing yeoman's service, the exports of Jute goods having nearly doubled in the last five years, the figure for 1907-08 being Rs. 18,29,76,000 as against Rs. 9,46,92,000 for 1903-04. The production and exports of tea to foreign countries have also been increasing, the value of the latter having advanced from Rs. 8½ crores in 1903-04 to more than Rs. 9¾ crores in 1906-07 and Rs. 10¼ crores in 1907-08. It must be remarked here that many raw materials such as seeds, hides and skins, and cotton which we export to the value of many crores ought to be manufactured in India. The total value of the exports of these raw materials comes to about 76 crores of Rs. annually, a little less than one-half of the value of the total exports. Fortunately for us we enjoy the precious advantage of having raw materials in abundance, which manufacturing countries like England have to import from outside. We are therefore in a very happy position in the possession of these. If we apply up-to-date methods in manufacturing the raw materials in our country we shall save so much wealth that is now going out of it. We must thus start tanning and oil industries, coal mining, iron and steel industries as also silk, woollen, glass, paper and other manufactures. This is a stupendous task, one which

will require years and years to accomplish. A beginning has, however, been made and the success which has been achieved in Bombay as regards the textile industry, ought to inspire us with a hope that if we persevere whole-heartedly and with a singleness of purpose in the industrial regeneration of our country, our efforts are bound to be crowned with success in the distant future. Let us have patience and let us not be carried away by the impulse of the moment into wild sentiments and hasty actions which will only retard our progress. To think of attaining the industrial goal without the sympathy and co-operation of Government, is simply preposterous. Swadeshi, as defined before, contains all the healthy and useful elements that will ensure our attainment of industrial and economic salvation and we must, therefore, stand resolutely by that Swadeshi.

This wholesome Swadeshi spirit is already becoming manifest in manifold ways. Everywhere new Banks and Insurance Companies are being started and they are said to have proved successful ventures. The principle of Co-operative Credit has come to be grasped and the Societies established in various parts of the country are declared to be making fair progress. A considerable amount of valuable economic work is said to have been achieved by the Imperial Institute at Dehra Dun and a variety of woods are being tried for purposes of lead pencils, match boxes, tea boxes, opium chests, tobacco pipes in Burma, the Punjab, and the United Provinces. It is not possible here to give a

complete list of the mills, factories or other industrial works recently started in India. A few instances may be cited to show how the Swadeshi spirit is taking a tangible shape in the various departments of industrial activity. Thus the two new Sugar Factories in the vicinity of Cawnpore have begun regular operations and we are told Indian capitalists in Allahabad propose to erect a large refinery in that town. A Company has been formed to work the old Stewart Tannery at Agra, and small chrome tanneries are likely to be established in other towns in the U. P. Three new Weaving Schools have also been established in those provinces, besides a new glass factory, the Kasi Glass Manufacturing Company, that has been already advertised. Sugar Factories are reported from Hospet and Sholapur, Cap Manufacturing Companies on a large scale from Bombay and the Punjab, and Steam Navigation Companies from Bengal and Bombay. An Oil Mill has been started in Bombay and an Umbrella Factory in Poona. Besides such concerns on a considerable scale, many smaller Factories and Works in connection with lead pencils and nibs, matches and soap, note-papers and envelopes, Chinaware and hemp sole-shoes, inks and polishes, bangles and perfumes, buttons and cutlery, and many other articles of everyday use, are reported to have been started in various parts of the country. An increased demand for Swadeshi *dhoties* and other kinds of cloth has given a new life to the dyeing and weaving industry in Bengal and Madras, and many families of weavers which had been

out of work and fighting against destitution have once more a hopeful prospect opened out to them. The cry of swadeshi is ringing from one end of the country to the other and there is no newspaper that does not announce from week to week a new Factory or Company or does not refer to new attempts in the direction of industrial progress. As the cause of Swadeshi will prosper, it will help a larger production of indigenous articles and will arrest the imports of those goods from foreign countries in the same proportion. As the cotton industry, both mill and handloom, is now considerably old, it is natural that the impression produced on the imports of foreign cloth should be marked. Thus Bengal has been taking smaller and smaller quantities of that imported article, and the other provinces are doing the same. And this explains the extraordinary phenomenon, incomprehensible to some, of the unexampled prosperity of Indian Cotton Mills in a year of distress, short hours and closed Mills in England. As the other nascent industries are yet only in an infant or embryonic state, it will take decades or even generations before we become self-reliant in connection with them. There are obvious limitations inherent in the physical and economic conditions of this country, and he is a bold man, indeed, who expects India to become self-sufficient in the matter of her manufactures in the near future. To be entirely independent of the supplies of other countries should not and cannot be the ideal of any people in these times, least of all of the people of India in the backward state of their agriculture, of



their knowledge, scientific, technical and commercial, and of their social and educational systems. We must carefully study the industrial possibilities of the land and concentrate our attention on certain industries which it would be profitable to develop. It is no use frittering away our energies on a variety of industries simply with the ambition of dispensing with foreign imports and becoming self-reliant in every detail. It is also unprofitable merely to pronounce a ban upon foreign articles and an Economic Boycott is an absurdity. A protection for nascent industries is certainly needed in India as it has been necessary elsewhere, "the muttering of the priests at the shrine of free trade" notwithstanding, and such protection is amply vouchsafed by the Swadeshi movement which is gaining strength every day in this country. Let us cease to babble about Boycott, not to please the bureaucracy as some allege, but to save our energies for a better cause. This would not be difficult for those who suppose that Boycott is identical with Swadeshi. Even those who think that Boycott is only Swadeshi emphasised are sure to be satisfied with the Swadeshi as above explained. People who, however, see in the Indian Boycott a means of attaining political salvation, would, indeed, have nothing short of an all-pervading Boycott, and they must be let alone. But what will those men who feel in their heart of hearts but cannot openly say, that Boycott is distinguished from Swadeshi, is unmitigated cant, do under the circumstances? The growing sentiment in favour of Swadeshi is welcome,

but the responsibility of giving it a right direction lies on the shoulders of the educated people and the leaders of the land.

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## IX.

### NATIONAL ECONOMICS AND INDIA.

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"Science must not deny the nature of special national circumstances, nor ignore and misrepresent it, in order to promote cosmopolitan objects. Those objects can only be attained by paying regard to nature, and by trying to lead the separate nations in accordance with it to a higher aim."—*The National System of Political Economy*—List.

We invite the whole world to witness that we are in India for the benefit of the Indian people and not for our own. Are we sure that in all respects we are justifying the boast? We have recently enlarged the liberties of India. Are we sure that we are willing to listen to her voice now that it is more audible?"—*India Under Curzon and After*: Lovat Fraser.

It is a commonplace of the history of economics that in the development of that science there have been remarkable fluctuations of thought, setting up and upsetting of universal truths, avowals and recantation of dogmas and a succession of widely different and inconsistent theories, so that some thinkers have grudged it the status of a science and would call it a bundle of hypothetical generalizations. Even in what are called the exact sciences, we see old theories discarded in favour of new ones and changes in fundamental principles accepted. Continuous research and experiment are opening new avenues of scientific progress, and discoveries are so revolutionary that the scientists of the last generation would stand aghast at the cruel havoc that the present has done to their highly cherished beliefs and truths. What were once regarded as elements have been analysed into constituents, and

new elements have been added and the truth of theories like the atomic theory is being seriously questioned. If that is so with the exact sciences where the scientist has to deal with simple, tangible, material objects, can test the truth of his theories by means of accurate and highly practical experiments and may lay down universal laws, there is no wonder that economics should be a hypothetical science, whose truths have a limited applicability, when it is remembered that the student has to deal with extremely complex phenomena, those of men in various stages of development and in various circumstances of family and state. Men are prone to judge of the whole world and the human race from the evidence that comes before them in their own country and in their own times. They start from certain assumptions about characteristics of human beings and societies and build the superstructure of their economic doctrines thereon. The early English economists exposed the errors of thinkers of the preceding generation and based their system on what appeared to them, the sure and sound foundations of unalterable truths. They thought they had carried their science of political economy to perfection and had attained a precision of statement and cogency of argument that were unexceptionable. A later generation of economists, however, while accepting the general truth contained in the theories of Adam Smith and his followers of the orthodox school, revolted against the rigid character of their doctrines and the *a priori* method of their reasoning. This reaction against the gratui-

tous assumptions and sweeping generalizations of the economists of the older generation had an unsettling effect upon economic science and the feeling of exaltation at the triumph of the orthodox school in systematising economic ideas gave place to one of doubt and disappointment.\* Writers of the historical and national schools of political economy attempted a reconstruction of the science and a restatement of economic doctrines. From the policy of social, industrial and commercial restriction of the times when mercantilism was in the ascendant in Europe, there had been a violent change in favour of individual liberty and unrestricted competition in the economic sphere. There was once more a swing of the pendulum and on the Continent and in America especially, a return to a policy of State interference and national control of the means of wealth-production was preached and carried out in practice. This revolution did not, however, sweep away the old moorings and though some of the theories were discarded, others were only restated and the qualifications which limited them, were clearly demonstrated. Thus the method of economics has been, to a large extent, changed and the scope of the science been widened. The inductive and the historical methods are, however, regarded as supplementary to the old deductive method and the science itself is rightly supposed to be a part of the larger science of sociology. The doctrinal vicissitudes through which economics has passed, have not been without their use.

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\*Sidgwick.

They have brought into relief the essential principles of the science and emphasised the conditional character of some of its theories. Present-day economists state and explain those principles and at the same time indicate their limitations when they are to be applied to a set of definite circumstances. Economic science thus does exist and a very useful science it is. In these times of highly organized and complicated forms of society and government, with extended communications and world-wide markets and with the growth of modern industrialism, a knowledge of the laws of economics has been indispensable in various departments of life.

We have, at the present day, in various countries, the representatives of the different schools of economic thought, distinguishing and justifying their own systems, not in the old orthodox way but on new grounds. From the advocacy of rigid *laissez faire* to socialism which seeks to nationalise land and the instruments of wealth-production, the whole gamut of economic theory has its own defenders. The majority of the present-day English economists, while they appreciate the value of the contribution made by the German or the historical school, to the development of economic science, warn us against exaggerations in the condemnation of the orthodox economists and the glorification of the evolutionists and sociologists. \* Not being satisfied with the scope and methods

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\* 'The Scope and Method of Economic Science' by Henry Sidgwick.

of what is called Orthodox Political Economy, a profound thinker like Mr. John Beattie Crozier found it necessary to reconstruct the whole science so that its principles may "explain and interpret not merely the particular stage of modern capitalism, but every other stage in the development of industry as well, whether past or future; that it would afford us a touchstone by which we could clearly separate in any complex piece of industrial policy those effects that are purely economic in character from those that are due to extraneous powers and forces, whether political, legal or social; and that instead of running counter to the methods and expedients of practical business men everywhere, it would be found to be everywhere in harmony with them."\* Labours of economists during the past generation have freed the science from its academical and doctrinaire one-sidedness. All scientific doctrines tacitly or implicitly assume certain conditions and are in this sense hypothetical. But there is a special responsibility upon the economist that he should emphasise the implied conditions oftener than is necessary for the student of Astronomy or Chemistry. "It would be better," remarks Professor Marshall, "to say that an economic law is often applicable only to a very narrow range of circumstances which may exist together at one particular place and time, but quickly pass away. When they are gone, the law, though still true as an abstract proposition, has no longer any practical bearing; because the particular set of causes with which it

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\* 'The Wheel of Wealth' by J. B. Crozier.

deals are nowhere to be found acting together without important disturbance from other causes. Though economic analysis and general reasoning are of wide application, we cannot insist too urgently that every age and every country has its own problems, and that every change in social conditions is likely to require a new development of economic doctrines."\* It is unnecessary to vindicate the claims of economics to the status of a science when the aid of its principles is being invoked every day to solve so many and varied questions of social and national importance.

It is indeed easy to exaggerate the importance of the contribution made by German thinkers to the development of Economics, yet its significance is unmistakable. The German school of economists resented the insular narrowness and self-confidence of the Ricardian school. It took strong objection to the abstract propositions which the English advocates of unrestricted trade laid down, on the strength of the conditions obtaining in their own country. Friedeich List, the leader of this revolt against Orthodox Political Economy, showed that the system of the old school suffered from three main defects : firstly, from boundless *cosmopolitanism*, which neither recognises the principle of nationality, nor takes into account the satisfaction of its interests ; secondly, from a dead *materialism*, which everywhere regards chiefly the mere exchangeable value of things without taking into consideration the mental and political, the present and the future interests, and

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\* 'Principles of Economics' by Professor Marshall.



the productive powers of the nation; thirdly, from a *disorganising particularism and individualism*, which, ignoring the nature and character of social labour and the operation of the union of powers in their higher consequences, considers private industry only as it would develop itself under a state of free interchange with society (*i.e.*, with the whole human race) were that race not divided into separate national societies. Adam Smith and his followers as well as immediate Physiocratic predecessors had laid particular stress upon an ideal universal republic and world-wide peace, and taking that for granted, had formulated the abstract theory that under a regime of perfect competition and free exchanges, the only duty of Governments was to keep peace and order in the country. The one-sidedness of this doctrine is admitted by the advocates of free-trade and *laissez faire* of the present day, and they have to urge different arguments in support of freedom of competition and exchange. Owing to the peculiar conditions and ideas of his times, Adam Smith believed that agriculture was more valuable than manufactures and home trade than foreign trade and could foresee no danger to his nation's prosperity from free-trade as all industries of those days were in the domestic stage and difficulties of transport and communication were enormous. It is curious to note that like an economist of the national school, he supported the Navigation Laws on the ground that the defence of a nation is more important than its opulence. Almost all his arguments would be contemptuously rejected by the

present-day Cobdenites, his devoted disciples. The world has so vastly changed since his time and were he to come to life again, a writer feels assured, Adam Smith would be immediately converted to Protection. Such seems to have been the influence of the writings of the National School of Economics on the development of thought that those who defend and continue the traditions of the Cosmopolitan thinkers have perforce to admit the force of national considerations and to support their doctrines by showing their beneficial effects upon their nations. Obviously, Cobden's dreams of universal peace have not been realized and in spite of all attempts at international arbitrations and the advance of civilization, we are as far from the millennium as ever. Even List thought that though in the 'forties of the last century, nations were exclusive and jealous, as time went on and with it material progress, the era of universal brotherhood would be hastened. But in the second decade of this twentieth century, seventy years after List wrote, international jealousies are keener than ever, the crushing burden of armaments is painfully oppressing the taxpayers and nations have drawn up cordons of protective tariffs round themselves. The feeling of racial and national division is a powerful force and the economist has to take account of it. The theoretical conception of unrestricted exchange of commodities between nations and peoples, capable of producing the greatest amount of wealth and under best conditions, has its proper place in the science as a theory ; but it has to be limited in its application to

the world as it is at present. Every state whether it is a continent like India or a world-wide aggregation like the British Empire, whether it is a large federation like Germany and the United States of America or a small empire like that of modern Japan, has its peculiar history, its traditions, its social manners and geographical characteristics, which cannot be reduced to a common denominator and have therefore to be treated differently. Nations cannot be governed by purely economic principles. Sense of racial and national pride, the desire of self-preservation and the attainment of a higher standard of life,—these currents and cross-currents play an important part in determining the actions of peoples and states. Hence List emphasises the need of a National Political Economy as distinguished from the cosmopolitical.\*

National Economics is not a separate science. It is only a particular case of the general science, an aspect, a standpoint from which things have to be looked at. It lays stress upon the exception to the abstract generalization of the economic beneficence of perfect competition between individuals and individuals, and nations and nations. It thus sanctions Protection, restrictions upon trade, and restraints, in certain recognized cases, upon individual liberty. As the state is the only authority which can enforce these limitations, we find the theory propounded as the next logical step, that Governments ought to interfere with liberty in the interests of the nation as a whole. The principle of State control

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\* "The National System of Political Economy."

represents a revolt against the old *laissez faire* theory and is the direct fruit of the nationalist and historical development of economic thought. On this subject there are sharp divisions of ideals and opinions. If we leave aside those who hold extreme views on the point, such as those whose aspiration it is to reduce the functions of Government to the narrowest possible limits and those, at the other pole, who discover the root of all economic evil in private poverty, there still remains a wide ground for dispute as to the degree of state interference. It is impossible to conceive how, even in a progressive state, complete competition and liberty of action can be allowed without ultimate detriment, not to this or that class in society, but to the nation taken as a whole. And in fact, by common consent Governments have taken upon themselves the conduct and ownership of certain concerns for the sake of public good and liberty has been openly restrained to minimise the evil effects of competition even in countries which are the recognized strongholds of *laissez faire*. Similarly, however one may sympathise with the objects of the "scientific socialists," we feel bound to subscribe to the view that "with human nature as it exists at present, and as it bids fair to continue for an incalculable future, Socialism, if ever realized in practice, would be the death-knell of economic advance and true social betterment."\* Having laid down the general theory about the desirability of freedom of competition and non-interference of state in trade and industry,

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\* 'Principles of Economics' by Seligman.

economists usually cite exceptions in which state intervention and regulation are justifiable. Thus Professor Sidgwick observes :—"There will probably always be considerable disagreement in details among competent persons as to the propriety of Governmental interference in particular cases ; but, apart from questions on which economic considerations must yield to political, moral, or social reasons of greater importance, it is an anachronism not to recognise fully and frankly the existence of cases in which the industrial intervention of Government is desirable, even with a view to the most economical production of wealth."\* He also dissociates the English economists of the orthodox type from any sweeping doctrine of *laissez faire*. Professor Nicholson† has also taken pains to show that Adam Smith did not set up the system of 'minimum-interference' as an economic ideal, still less, as the most general political ideal, and after balancing the advantages and disadvantages of individualism and Governmental interference, concludes that on the whole, whether we like it or not, there is no gainsaying the fact that throughout the whole field of economic activities alike as regards consumption, production, exchange &c., the system of natural liberty prevails over the system of regulation. But natural liberty has defects of its qualities and may require restraint or supplement on the part of the state. In spite of this consensus of opinion as to cases where considerable interference

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\* "The Scope and Method of Economic Science" by Sidgwick.

† Principles of Political Economy Vol. III.

with economic freedom is necessary, there is yet a wide margin for divergence of view and what one economist regards as legitimate intervention on the part of the state, another condemns as unnecessary interference. The attitude of mind, however, which in England, insisted at one time upon the principle that individual energy and enterprise could be trusted to provide the greatest amount of all that money could buy for a country seems to have been generally discarded. It is admitted for example, now-a-days, that public health is not secured by the free play of individual interests and a large number of laws have been passed for the purpose of preserving national health. Education and industrial training have been admitted into the scope of the duties of Governments and attendance at school has been made compulsory. An attempt has been made to draw a line between moral and material aims and to say that in regard to the latter, it is unnecessary, if not dangerous, for the state to interfere with private enterprise. But in practice this line of demarkation has been too hazy to be always discerned and maintained. Though the theory of non-interference by the state continues to be avowed and preached, the exceptions allowed are so many that it is no longer possible to lay down the abstract rule as some writers have done that "the individual best discovers what is profitable and what not; the individual best bears the losses incident to failure."\* Vast amounts of expenditure are incurred for what are regarded as objects of na-

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\* 'State Aid and State Interference' by George Baden-Powell

tional importance, such as defence, sanitation, education, old age pensions, state insurance, and agricultural improvement, which are approved as desirable for the future of the nation. "In all these cases public opinion has approved of interference which is a drag on the running of the mechanism of society. No one could deny that the objects aimed at are of great importance; but from the point of view of the old-fashioned economists they are to be regarded with suspicion, because it is so difficult to gauge in terms of money the precise economic advantage that accrues from improved health or increased education; the money spent on them may be beneficially employed, but is it or is it not a remunerative investment? Public opinion however does not pause to balance the expenditure against the gain; there is a consensus of opinion that the interference with trade which arises directly or indirectly in connection with the pursuit of these national objects ought to be incurred, even if it cannot be justified in detail by a reference to any balance sheet."\* A certain state of things may be good for all practical purposes at the moment. But the true statesman has to look far into the future and devise means to ensure the possession of the means of production which may, without state initiation and regulation, pass out of a people's hands and thus the present advantage may be more than nullified by the prospective and permanent loss. Governments have erred in the past and abused their power and are likely to do so in the future. But

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\* 'The Case against Free Trade' by Cunningham.

they are the only organizations available for taking measures to promote public good by legislation and regulation wherever their interference is called for in the interests of national well-being. It cannot be too often emphasised that the power and the resources of the state must be judiciously used and with all their short-comings Governments are likely to take better care of national interests than would be the case if things were left to individual enterprise and self-interest alone. This is the lesson which National Political Economy is calculated to teach and it has been taken to heart by almost all the civilized peoples of the earth.

To us in India, with our peculiar political, social and industrial conditions, an historical survey of the economic evolution of other countries and the conclusions of the national economists, have special value. Many of the assumptions of the ordinary writers on Economics do not hold good and have little application in the case of this country. The dominant note of the situation in India which has powerfully affected its destinies, is its connection with Great Britain. While British rule has established peace and orderly government in the country, it has pulled down the barriers which separated province from province and race from race and switched the whole on to the outside world, with its physical progress and modern industrialism. Not to speak of the effects which education and contact with Western civilization have wrought and are slowly working upon the religions, the social manners and the political ideals of the people, the influence upon



the economic condition has been enormous. The helm of Indian affairs was long in the hands of a commercial company, which looked naturally more to its own dividends than to the interests of the country. Mr. Dutt observes :—" It was hardly possible that foreign merchants and rival manufacturers, working for their own profit, should have this object in view (the introduction of superior methods) and the endeavour was never made. A policy the reverse of this was pursued with the object of replacing the manufactures of India, as far as possible, by British manufactures." Aided by her mechanical inventions, the new markets which conquest had thrown open and by the enterprise of her citizens, England was forging ahead in her career of industrial supremacy in the early part of the nineteenth century while internecine wars, apathy and ignorance had made India stagnant. Indian industries, far-famed in ancient and modern history began to languish and the artisans and craftsmen were thrown upon the soil. The new roads and railways, while they served to transport food grains and other articles and thus to save precious lives in times of famines, intensified the evil. Not that this state of things would not have supervened if the British nation had not become the paramount power in India. The late Mr. Justice Ranade remarked :—" The industry and commerce of the country, such as it was, is passing out of our hands, and except in the large Presidency towns, the country is fed, clothed, warmed, washed, lighted, helped and comforted generally by a thousand arts and industries in the manipu-

nation of which its sons have every day a decreasing share. Foreign competition, not because it is foreign, but because it is the competition of nature's powers against man's labour—it is the competition of organized skill and science against ignorance and idleness—is transferring the monopoly not only of wealth, but what is more important, of skill, talent and activity to others.”\* This period of stagnation, even of retrogression, synchronised with the *regime* of a rigidly protectionist policy in England which sought to promote English industry and commerce at the sacrifice of the interests of the colonies and the dependencies. The East India Company and British statesmen could not therefore have been expected to take measures for arresting the decay of India's old crafts or establish new industries on the model of English manufactories and thus to strengthen an old rival or create a new competitor. When the United Kingdom committed itself to free-trade, that creed was held to prevent British statesmen from taking a liberal view of their trusteeship so far as the economic condition of India was concerned. Protection and state regulation were heresies. Our British rulers have been under the thralldom of a theory and many of them honestly believed that what was good to England was equally good to India. The differences of soil, climate, traditions, social customs &c., were ignored and the principles of the academic economists are applied to this country on the analogy of England. The most recent

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\* ‘Essays on Indian Economics’ by Mr. Justice Ranade.

upholder of this system of indiscriminately following the doctrines of the orthodox school without regard to special conditions is Professor Lees Smith who, in his defence of the cotton excise duties against the charge of their being maintained from selfish motives, writes : "Great Britain has always maintained, as her honour demanded, that she would never subordinate the good of India to the selfish interests of British manufacturers. She has been able to force free-trade upon India because she has argued, with complete consistency, that she believed that it was for India's good and that she applied the same principles to herself."\* We are not here concerned with the honesty or motive or consistency of action, which may all be conceded. What we take objection to is the indiscriminate and abstract method which is followed in the discussion of Indian problems. This doctrinaire policy of "hands-off" is a great stumbling block in the path of India's progress. The Governments in almost all foreign countries and even in British self-governing colonies, have adopted quite an opposite course and they have attained a considerable measure of success. Whatever the fiscal and economic faith of Britain may be, it is essential that Indian problems should be looked at from the purely Indian point of view. The *laissez faire* policy has failed in India and is unsuited to it. The Government of India must become a national Government conserving the country's resources, initiating measures for its economic advancement and, in other ways, pro-

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\*'India and the Tariff Problem' by Professor Lees Smith.

moting its interests exactly in the way in which Governments of other nations are doing. Indian policy ought not to be swayed by political considerations or party exigencies. Whether England continues to worship in the shrine of free trade or becomes a convert to Protection, her duty to India requires that her affairs should be regulated in the economic no less than in the other spheres solely by Indian National considerations. "If the narrow conception of the functions of the state be discarded, and an all-round development of the community be taken as the object of the state, the *laissez faire* policy of the Indian Government cannot be defended. Regarded from this standpoint, the Government has surely failed in its duty. But whatever may have been its shortcomings in the past, it is not too much to expect that the Government will in future recognize its responsibilities and turn its attention to this matter." The later development of economic thought and of economic practice points to a more extended province of state's duties and the physical, political and intellectual conditions in India are such as necessitate the assumption by the state in this country of all those functions which are held to fall within the province of Governments in other countries. In enlightened and go-ahead England the individual may be left to himself in the fierce fight of internal and external competition, though a larger body of opinion there is clamouring against this policy; but in conservative, ignorant, backward India a conscious attempt to regulate matters for the prospective good of the country as a whole is called for.

In his famous, almost classical, lecture delivered in 1892, on Indian Political Economy, the late Mr. Ranade took a masterly review of the past and contemporary history of the growth of economic science in various countries of the West and concluded that "Modern European thought does not at all countenance the view of the English writers of the Ricardian school that the principles of the science, as they have enunciated them in their text books, are universally and necessarily true for all times and places and for all stages of advancement. Modern thought is veering to the conclusion that the individual and his interests are not the centre round which the theory should revolve, that the true centre is the body politic of which that individual is a member and that collective defence and well-being, social education and discipline and the duties and not merely the interests of men must be taken into account if the theory is not to be merely utopian."\* He then proceeded to point out the bearings of this enlarged view of the science in its Indian aspects. He questioned the economic correctness of the so-called system of the territorial division of labour by which the orthodox economists relegate the backward races of the East to the production of raw materials and claim for the advanced countries of the West the work of transport and manufacture. The error which lurks in this theory has been exposed by the remarkable advance made by Japan, an Eastern country, in trade

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\* Essays on Indian Economics.

and industry within recent times. With external as with internal trade there must be a proper co-ordination of industries. Otherwise, there is the danger of a country rusting into dependence and weakness as has been the case in India on account of the loss of its industries through foreign competition. The ruralisation and consequent rustication of India weighs heavily on the conscience of the British administrators in the country, but "they feel powerless to act under the influence of the all-pervading doctrine that these matters lie outside the province of Government." During the last twenty years since Mr. Ranade taught the lesson for the first time in a systematic manner, the attitude of Government in India has shown a marked advance in the desirable direction. In fact, that Government might well have been charged with heresy by the rigid economist of the academic school. As Professor Theodore Morrison\* has observed, in many respects the state in India is more national and socialistic than many people may imagine. While the problem of unemployment and the question of checking the abuse of competition are engaging public attention in England, the Government of India has long taken upon itself the duty of relieving distress and saving lives in times of scarcity and famine. Railways and canals have always been practically state undertakings. Various tenancy acts and other measures have been passed to safe-guard the poor tenants against the exactions of the land-lords.

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\* Economic Transition in British India.

An attempt has been made to relieve the ryots from the exacting clutches of the money lender by teaching him to co-operate with his fellows. The co-operative credit societies, whose success has been so remarkable, were first initiated by state legislation. The agricultural departments have taken up seriously the problem of all-sided improvement of agriculture. Experts have been employed to study the questions of improved seeds, manures, implements, insects and pests, irrigation, fruit culture, and the cultivation of better varieties of crops. The proceedings of the recent conference of the Board of Agriculture at Pusa show how practical questions in connection with agriculture and agricultural industries are receiving the serious attention of Government. Industrial surveys have been instituted in the various provinces and much useful information has been published for the use of the public. Experimental and demonstration farms, industrial and agricultural exhibitions and other forms of pioneering work are steps in the right direction and indicate the recent appreciation of its responsibilities by Government. Technical, commercial and agricultural education has not been neglected, though the progress is very slow. Scientific education in the higher branches and the establishment of modern industries have received direct and indirect assistance from Government and they have issued orders that the stores their departments require may be preferably obtained locally. This is gratifying progress so far as it goes. But the state is capable of doing much more which it is precluded from

doing by various political and other considerations.\* Mr. Ranade indicates how ample scope there is for state action in the matter. "If the state can legitimately undertake from borrowed funds the construction or subsidization of rail-roads and canals, if it can afford to sell the fee simple of waste-lands at nominal rates to European settlers on the hills, the road is certainly open for a further development of this same industrial effort on new lines." In his inaugural address to the First Industrial Conference at Poona delivered in 1890, he observed:—"We cannot as with the Governments of these countries (the enlightened countries of Europe and America) rely upon differential tariffs to protect home industries during their experimental trial. We cannot expect the Government here, to do what France or Germany does for their shipping trade, and their sugar industry and ask Government bounties and subsidies to be paid out of general taxes. These are heresies according to English Political Economy, such as is taught to us, and whether they be really so or not, it is useless to divert our energies in fruitless discussion and seek to achieve victory over free-trade."

It must be gratefully admitted that the Government of India is alive to its duties in respect of the country's economic and industrial development and the

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\* "These measures sum up the activity of the state in the matter of the encouragement of industry. But, taken together, they do not amount to much. In this respect the Indian Government compares very unfavourably with the other civilized Governments."—"A study of Indian Economics' by Professor P. Bannerjee, M.A.



efforts which are being made in that direction are certainly laudable. But there are difficulties in its way, the first of which is its constitutional dependence upon the Secretary of State and therefore upon the British Cabinet which cares more for the votes of electors in the United Kingdom than public opinion in India. Being a mere dependency, this country's natural resources cannot be conserved and utilized in the interests of and by the people of the land and have to be thrown open to be worked up by European capital and enterprise. Being backward in every particular, Indians cannot tap indigenous resources themselves and they are not being trained for the purpose as they should be. If the Government of India were perhaps left to itself it may be able to do much more than it actually does. In the famous despatch of 1903 relating to the Government of India's opinion concerning preferential tariffs, Lord Curzon observed :—" All past experience indicates that in the decision of any fiscal question concerning this country, powerful sections of the community at home will continue to demand that their interests, and not those of India alone, shall be allowed consideration." Speaking in the House of Lords on May 21, 1908, His Lordship said :—"What has been our experience in the past in India of the manner in which the influence and power of the Secretary of State, as the ultimate ruler of India, are exerted in the direction of the fiscal policy of India? It is that in fiscal matters the Government of India has to take the views of the Secretary of State whether it agrees with

them or not, and those views are more likely to be guided and shaped by English than by purely Indian considerations." It is not the Liberal party alone that is a sinner in this respect. If the tariff reformers and the protectionists are able to carry their point and come into power in Parliament, they will force upon the Government of India a policy which fits in with their interests and those of their supporters, whether it is suited or unsuited to the conditions of this country. In this way the political factor, the constitutional dependence of our Government upon the British Cabinet and the lack of popular control in the counsels of the state in India, dominate the economic situation and other factors are subordinate to it. Not until the Indian state becomes national in spirit and is in a position to take measures calculated to promote India's economic and industrial progress solely in the interests of the Indian people, can the hope be entertained that our advance will be on the lines of other progressive nations. Our Government has already started on its journey towards that destination but its pace requires an amount of acceleration which can come only if the springs of action are sufficiently strong and elastic.

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## X.

### HIGH PRICES AND CURRENCY.

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The prevalent high prices in India are at present engaging the attention of a special committee appointed by Government for the purpose of collecting information and throwing light upon the causes that have contributed to a rise in the price levels in the country. Obviously the phenomenon cannot be the result of a single cause. It is a complex problem and a number of factors are involved in it. Apart from temporary causes such as scarcity and famine, there have been other forces at work such as more extended communications, heavy exports of food grains, the cultivation of other than food-crops on a larger scale, the growth of industrial activity and a steady rise in the standard of living of the people. Many who have carefully studied the question, are, however, of opinion that the currency policy of Government is, in a large measure, responsible for the extraordinary rise in prices during the last few years. It would be better to suspend one's judgment till the report of the Prices Enquiry Committee is published and one has definite data to work upon. Yet it is permissible to discuss the subject on the basis of the material that is available so as to assist the Committee itself in forming its conclusions. Some economists regard high prices as a matter for congratula-

tion.\* Whether this is true or not so far as prices in India are concerned, taking into consideration the economic development which the country is slowly but surely undergoing, one must say that there is no prospect of the prices in India returning to the old level, say of twenty years ago. The index number for "all articles" stood at 104 in 1880, and for the next eight years it was a little below 100, between 90 and 100. Excepting only for four different years that number is seen to have run into three figures between 1889 and 1909. With variations here and there, the uppush tendency appears to have been continuous. If it reflects the gradual advance of public prosperity, little can be said against it though large classes may be temporarily hit hard by the enhanced prices. But if it is the result of certain abnormal conditions of the fiscal or currency system of the country and is preventable in the interests, not only of persons with fixed incomes but of other important classes of society, the question calls for serious consideration and remedial measures by the state. We propose, in this place, to inquire if there is any ground for fixing the responsibility for the high prices upon the shoulders of the currency system and the action taken under it by Government.

Those who contend that the rise in the level of Indian prices was materially stimulated by Govern-

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\* "Let us therefore rejoice in the depreciation of the precious metals, so long as it lasts; it serves at least as a lubricant for the wheels of the economic mechanism":—Professor Charles Gide.

ment's currency policy, base their conclusion upon the extraordinarily heavy coinage of silver which synchronised in India with a markedly upward tendency of prices. Taking the decade 1900-10, we find that owing to the terrible famine which covered a large portion of the country at its beginning, the index numbers rose, for "all articles" from 96 in 1899 to 116 in 1900 and to 110 in 1901. During the next two years it declined to 105 and 99. Then in 1904, the rise began again, till in 1908 the highest figure of 139 was reached. In 1909 there was a fall to 124 but there are no signs that prices will return to the normal level in the near future. The following table represents the movement of prices during the last decade:—

Year.	Index numbers of the Commercial Intelligence Department.				Atkinson-Silver prices.	Sauerbeck—gold prices.
	Food-grains retail price.	Imported articles.	Articles exported and consumed.	All articles.		
1873	100	100	100	100	100	100
1900	192	97	124	116	143	68
1901	157	96	116	110	139	63
1902	141	86	113	105	128	62
1903	126	88	103	99	123	62
1904	117	93	104	101	121	63
1905	147	96	116	111	134	65
1906	179	105	139	129	158	69
1907	180	116	145	137	167	72
1908	231	107	151	139	180	66
1909	195	99	134	124	...	67
1910	...	...	...	...	...	70

We are indebted for these tabulated and other figures quoted in this note and much useful information on currency, exchange and trade problems, to the most instructive book recently written by Mr. H. F. Howard of the Calcutta Customs, entitled "India and the Gold Standard." Though the views put forward in the book will not find general acceptance, his lucid treatment of the intricate questions he has handled is simply admirable and the book deserves to be widely read.

Now side by side with these figures representing the rise of prices we shall place figures showing the total amount of rupees coined and rupees absorbed in each year during the last ten years.

Year.	Coinage of rupees at the Indian Mints.	Net absorption at rupees (In crores.)
1900-01	17.15	9.90
1901-02	4.95	1.53
1902-03	11.27	.26
1903-04	16.17	10.76
1904-05	10.88	7.75
1905-06	19.60	14.35
1906-07	25.37	16.76
1907-08	17.32	3.85
1908-09	2.51	15.96
1909-10	2.08	14.31
1910-11	2.20	3.87

The parallelism between the two movements, that of the ever-increasing volume of rupee currency on the one hand and of prices on the other, could not have been an accident; the relation between the two appears to have been one of cause and effect. If the

quantity of money in circulation goes on increasing, its purchasing power must be reduced and high prices will be the result. The recent increased output of gold has admittedly contributed to a rise of prices in the gold-using countries of the world. A large majority of economists accept the quantity theory of money, of course, with the necessary modifications. "That an increase of the quantity of money raises prices and a diminution lowers them is the most elementary proposition in the theory of currency." But this increased supply of money may be counteracted by greater industrial and commercial activity and a larger demand for the medium of exchange. International trade and rapidity of circulation are other factors which have also to be taken into account in laying down a close connection between the volume of currency and prices. To a certain extent the Indian rupee prices and gold prices have acted and reacted upon each other. But this influence has not been such, as may be seen from the index numbers given above, as to adequately explain the rise in the level of prices in this country. Other things remaining the same, the question of prices is that of ordinary demand and supply of the instruments of exchange. That there has been an enormous addition to the rupee currency of India from 1901 onwards cannot be doubted. *Prima facie* the currency must have been depreciated and prices must advance. But are we sure that "other things" remained the same during all the time? Of course not. It is however urged that the supply of currency exceeded the

demand, though the latter must have expanded to some extent in the meantime. The value of the rupees coined in the last decade doubled that of the previous two decades. There is no evidence to prove that this coinage of rupees was needed to meet the expansion of business. Mr. Howard has compiled the following table to show the excess of exports over imports, the Secretary of State's drawings, the coinage of rupees and the net absorption of the same in each year from 1904-05 to 1910-11. (11 months.)

	1904-05.	1905-06.	1906-07.	1907-08.	1908-09.	1909-10.	1910-11.	In crores of rupees.
Excess of exports over imports (including treasure.)	36	44	47	20	15	40	43	
Secretary of State's drawings	36	48	50	24	8	41	35	
Net absorption of rupees	7.7	14.3	16.8	3.8	16.0	14.3	2.9	
Coinage of rupees	10.9	19.6	25.4	17.3	2.5	2.1	2.1	

As we have seen above, Indian prices began to jump up in 1904 and the next three years may be taken as normal years free from peculiar disturbances caused by scarcity or famine. The very fact that the excess of exports over imports during these years went up from 36 to 44 and 47 crores and declined in 1907-08 to 20 crores owing to scarcity is sufficient evidence to prove this. This continuous increase in the balance of trade for the three years was accompanied by a parallel increase in the Secretary of State's drawings which rose from 36 crores in 1904-05 to 48 and 50 crores during the two succeeding years. The increased



sale of Council bills entailed a correspondingly heavy coinage of rupees, amounting to some 56 crores worth of rupees during the three years. The net absorption of rupees during that period came to about 39 crores. The currency being unautomatic and the rupee being a token coin, the additional rupees which were poured out by the mints could not have been even partially melted or hoarded. Even supposing that some of the rupees that found their way into the pockets of the ryots were hoarded, yet it cannot be denied that a substantial portion must have remained in circulation and enhanced prices. We cannot conceive of any counteracting forces which may have, during the period 1903 to 1907 nullified the effects of the inflated currency. The Hon'ble Mr. Webb observes:—"..... and so, notwithstanding the brave words of Sir Clinton Dawkins in 1900, millions after millions sterling worth of new silver were purchased and coined, till a climax was reached in the years 1905-07 when no less than £42,000,000 worth of new rupees were launched upon the Indian public—far and away the heaviest coinage of silver ever known in the history of the world. And by a Government committed to the establishment of a gold currency, too. Nemesis, however, very quickly overtook the Government of India and its new financial guides. Not only was the rise in prices then in progress throughout the Western world, perceptibly stimulated in India, (to the immeasurable suffering of the lowest classes, Government itself being forced to make 'grain compensation allowances' on a gigantic

scale to its poorest servants), but the check to trade arising out of the crop shortage in India and the financial crisis in the United States in 1907, all but wrecked India's laboriously constructed 1s. 4d. rupee —the redundancy in silver money being only relieved by a tardy transfer (through Government agency) of the equivalent of over £8,000,000 from the cash balances of the peoples of India back to the money markets of Europe.”\* We are not here concerned with this general and scathing indictment of the Indian currency policy. Every step in the departure from the lines laid down for their guidance by the Fowler Committee has been defended on behalf of Government by one Finance Minister after another from his place in the Imperial Legislative Council. It is clear that in currency matters as in other things, the Government of India has to carry out the policy imposed upon them from above, while the Secretary of State's action is guided by the counsels of London financiers. These latter see no good in allowing quantities of gold going away from London to India in payment for the goods imported from this country and being absorbed, hoarded or turned into ornaments by the conservative folk here. The Secretary of State therefore sells councils far above his demands in lieu of home charges and Indian mints have to be set working to pay off the bills. This is what is called the “requirements of trade.” To satisfy them 75 crores of rupees were coined within a period of five years. Many of these

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\* “Gold for India” by the Hon'ble Mr. Webb.

coins do return from circulation but a large quantity remains fluid in the country. 7.7 crores were thus absorbed in 1904-05, 14.3 in 1905-06 and 16.8 in 1906-07. Can it be seriously maintained that so many crores were necessary for trade and ordinary transactions of life? The transactions did not surely suddenly multiply to require such large quantities of the circulating medium. No wonder the inflated currency, consisting entirely of token coin, became redundant and sent up prices. In no other way can the rise of price levels between the normal years 1904-1907 be accounted for. Other forces have long been at work but their operation was slow. The currency element stimulated the rise. The action of Government may perhaps be justifiable under the circumstances. But the effect of it is unmistakable, and there is no escape from this conclusion.

In his "India and the Gold Standard" Mr. Howard has devoted one separate chapter to the examination of the connection between the volume of the rupee currency and rupee prices in India. Therein he agrees that "it is by no means impossible that an increase in subsidiary or token coinage (such as the Indian rupee now is, in as much as it is really on a gold basis) might, of itself, operate to raise prices in the same way that an addition to the circulating medium in the form of the standard money with its accompaniment of credit would do." He, however, adds that such a contingency would occur only if the amount of the subsidiary coinage was in excess of the demand.

as such, which, he proceeds to prove, has not been the case in India. The chief argument of those who contend that the rupee currency has had nothing to do with high prices is that the coinage of rupees has only been undertaken to meet the demands of the trade. We have shown above what that expression means. Government has practically undertaken to supply everyone who tenders gold with unlimited quantities of rupees. There is no reason why, after provision has been made for the payment of the home charges in London annually, the balance of trade in India's favour should not be left to be adjusted in exactly the same way as in the case of every other country in the world. But this is a digression. To come to the point, the so-called demands of the trade are illusory. The total coinage of silver of all descriptions amounted, in the decade ending 1890-91, in value to Rs. 72½ crores. During the next ten years rupees and the smaller silver coins were valued at about Rs. 45 crores. In the next decade the silver coinage came to nearly Rs. 130 crores. The total seaborne trade of India has shown a remarkable expansion within recent years but the last figure of rupee coinage is out of all proportion to that increase. And be it remembered, that such quantities have been coined while the mints remain closed to the private coinage of silver and the value of the rupee has been artificially raised. Since the crisis of 1907-08 there has been no fresh coinage of rupees, though the Secretary of State's drawings amounted in 1909-10 and 1910-11 to Rs. 40 crores

and 35 crores respectively. It has been calculated that in 1900 the active circulation of rupees was approximately Rs. 130 crores and that in 1908-09 the figure went up to Rs. 204 crores. These figures have been arrived at after making reasonable allowances. The increase amounts to one of 60 per cent. in 9 years. The increase of population at the last census over that of the previous one has been some 7 per cent. Against the growth of population and of trade has to be set the increased circulation of currency notes which has expanded the volume of the circulating medium. Between 1901-02 and 1909-10 this increase has been more than 75 per cent. The temptation to hoard rupees has disappeared and there is visible a marked tendency among the people to invest their savings in banks and other concerns. The steady development of credit and the popularity of its instruments are forces which must have met the demand made upon currency by increased population and trade transactions.

The Finance Member of the Viceroy's Council pointed out at the Budget debate of 1908 that "the net additions to the coinage, after making allowance for withdrawals etc., amounted, in the 15 years following the closing of the mints, to a little less than Rs.  $83\frac{3}{4}$  crores, or an average of Rs.  $5\frac{1}{2}$  crores per annum; in the 15 years preceding the closing of the mints the net additions to the coinage amounted, after the same deductions are made, to over Rs. 105 crores, or slightly more than Rs. 7 crores a year." Such a comparison

proves nothing. Before the closing of the mints the rupee was not a token coin. It was therefore hoarded and melted and had no appreciable influence upon prices. After 1893 all this changed and every addition to the unautomatic currency tended to raise prices. For the six years, 1894 to 1900, there was no coinage at all. And the output for the next 8 years was 83 crores which gives an average of more than 10 crores a year against the 7 crores of the 15 years preceding the closing of mints. Thus the above comparison is doubly fallacious. Too much weight appears to have been given to the argument that "the Indian currency system provides an automatic method for withdrawing any temporary excess of rupees from circulation." The continued heavy absorption of rupees and the equally heavy coinage year after year between 1900 and 1908 prove this. It seems that before the mints were closed the circulation of the rupee was more or less steady but during the last decade large net additions have had to be made which cannot but have resulted in the inflation of the currency. The policy adopted in 1899 has forced the hands of Government in this matter and however the steps taken by them to underpin the currency superstructure from time to time may be defended, there is no gainsaying the fact that the recent extraordinary issues of rupees have stimulated the rise of prices which many other causes have been slowly helping to push up. In his "Indian Monetary Problems" Mr. S. K. Sarma comes to the same conclusion and remarks:—"The adverse balance

of trade in 1908-09 was the signal for the fall of exchange. We had therefore one cycle of rapid coinage of rupees, increased prices, steady reduction in the balance of trade in favour of India, culminating in the breakdown of the artificial rupee, prevented only by the suspension of the Secretary of State's drawings and sale of bills in Calcutta or London between March and August 1908 to the value of eight millions sterling. This is the natural and inevitable result of the present monetary system which allows for an artificial inflation of the currency."

It is difficult to state precisely what share redundant rupee currency has had in pushing up price levels. But that it has had some share has been abundantly proved. As Mr. Howard rightly warns us, we have been careful not to treat as cause and effect fluctuations in price levels and fluctuations in the volume of the currency merely because such fluctuations synchronise. But for reasons given above, we cannot accept his dictum that "a fluctuation in price levels should be regarded as an index of economic changes which are taking place and not as an effect of which a fluctuation in the volume of the circulating medium is a cause." We are willing to make due allowance for economic changes but the rapid rise in the prices from 1904 to 1907 is inexplicable on this theory. Economic changes do not operate in such a sudden and startling manner as to force up the index number for "all articles" from 99 to 137 in four years. We are therefore irresistibly led to the conclusion that the in-

flation of currency was to a certain extent responsible for the high prices which commenced in 1904. There was a drop in the price levels in 1909 owing to the recovery after the scarcity of 1908-09 and the index number for 1909 is much below that for 1906, a year not marked by scarcity or other disturbances but a year in which 25 crores of rupees were coined. The partial failure of the rains may affect prices again but if the mints do not show much activity the rise is not likely to be very materially accentuated.





## XI.

### FISCAL FREEDOM AND PROTECTION FOR INDIA-

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"If we are to try to "govern India in accordance with Indian ideas"—a principle with which I humbly but fully agree,—how could we justify the refusal to India of the fiscal autonomy for which there is a far more widespread and genuine demand than for political autonomy?"—Mr. Valentine Chirol in *Indian Unrest*.

"I do not pin my faith to Free Trade, and I do not pin my faith to Protection; I hold that the policy most conducive to the prosperity and happiness of the people of India is the policy which should be adopted for India"—R. C. Dutt.

Advanced thought in Political Economy assigns to the state a very wide sphere of activities for the promotion of national well-being—political, social, intellectual and economic and it is obvious that unless this broader outlook is adopted by the state in this backward country no rapid economic development can be assured in India. Apart from the question whether Free Trade or Protection is the policy best suited to the present conditions in India, it has been admitted that a larger measure of freedom must, in this respect, be accorded to the Government of India if it is to do its duty by the people entrusted to its charge. The advocates of this financial and fiscal freedom are not unconscious of the constitutional relations of that Government to the British Parliament and of the inevitable dependence which those relations entail. They do not, by any means, propose complete financial and fiscal any more than political, freedom, for this country.

That will be disastrous to the best interests of the country itself. There are many who, on the other hand, press for a more effective Parliamentary control of the Indian administration and policy, and the imperial constitution, so far as this country is concerned, supports their view. In any case it would not be wise, for many years to come, to weaken Parliament's hold upon the direction of Indian affairs. The demand that the Government of India may be allowed more freedom is not, however, inconsistent with this hold. The claim has often been made on behalf of British statesmanship that its Indian policy is actuated by the full sense of its responsibility with regard to the well-being of the people of this dependency. Yet in practice, this claim has not been made good in several important cases. There is a natural tendency in members of Parliament to look at Indian problems through British glasses and their outlook is not often calculated to further the speedy advancement of India. In a lecture recently delivered on "Indian Economic Fallacies," the Hon'ble Mr. A. Chatterton of Madras remarked :—"The fact that the Government of India does not enjoy fiscal autonomy but in all matters relating thereto is subject to the control of Parliament exercised through the Secretary of State for the time being, is now considered by unreasonable people a political grievance of no small magnitude, but it may more justly be regarded as a part of the price that must be paid for the advantage derived from its connection with the British Empire." What Mr. Chatter-

ton complains of as a serious grievance is more economic than political and it is from that point of view that we have to look at it here. It is not so much the source from which authority and regulative force proceed that is of importance as the manner in which the authority and the force are exerted. Mr. Lovat Fraser who shows great insight into and a close acquaintance with, Indian questions, observes :—" The next important question which will arise for settlement in India will undoubtedly be the request of the Indian people that the Indian tariff shall be settled and maintained in greater accordance with their wishes. No suggestion of disloyalty will be involved ; nor will the request imply any hostility to British rule, unless it is blindly refused in which event it may produce a graver form of hostility than any yet encountered. It will be a perfectly constitutional demand preferred in a constitutional manner ; it will raise a moral issue transcending in magnitude any yet presented to Great Britain by India."\* The demand for greater fiscal freedom, preferred, not from mere sentiment, but for more economic efficiency, is thus not unreasonable and in course of time as the experiment of the enlarged councils proves more successful, will gather greater force. It will gain support from all classes of people and from the Government of India itself. The non-official members of the enlarged Imperial Legislative Council have already given emphatic expression to what they feel in the matter and they have faithfully represented the

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\*"India under Curzon and After."

views held by all those in India whose opinions are entitled to any weight. The Hon'ble Sir Vithaldas Thackersay, in criticising the new taxes levied some time ago said :—"We are prepared to bear our burdens, and all we ask is that the country should be allowed greater freedom in choosing the methods of raising revenue. I am unable to see how it will be injurious to the interests of Government if this council is allowed a more real share as regards what articles shall be taxed and what duties shall be paid." And further :—"It is generally believed that, if the Government of India had had a freer hand, they would have preferred the raising of the general tariff or a duty on sugar, which would have been less objectionable than the levying of the proposed enhanced duties in the teeth of the practicably unanimous opposition of the non-official members of this council and of the public generally." What is to be particularly borne in mind is that though the political control exercised by Parliament may be the price which this dependency has to pay for the advantages it enjoys from its connection with the Empire, the fact remains that the manner in which that control is exercised, is often antagonistic to the economic development of India. The argument that because India is a Dependency, she must suffer all the economic loss which her position involves, is too crude to require serious consideration. One can understand the other position that Parliament imposes upon this country a policy which it believes is likely to promote its best interests. But here the

Government of India, backed up by responsible and enlightened Indian public opinion, pleads for the concession of a little more freedom to order things in a way which it feels itself in a better position to judge of than people at a distance of six thousand miles and immersed in their own problems and interests. Financial and fiscal dependence is certain to preclude a state from following an economic policy which it deems the most suitable to the conditions of the people in its charge. The conservation of the mineral resources of India for which even such an authority as Sir Thomas Holland has been pleading, the stimulation of Indian enterprise and the greater employment of indigenous capital, the need of encouraging Indians to take a larger share in the exploitation of their country's material resources, and the framing of the Indian tariff in such a way as to promote economic progress in India, are questions whose satisfactory solution involves a larger measure of the liberty of initiation and action on the part of the Government of India than is available at present. That such freedom the Government will ultimately obtain cannot be doubted and it is gratifying to note a steady tendency pointing in that direction. Conflict of interest and of theory are the two great obstacles which bar the way to the attainment of this object. With the more liberal and progressive ideas that are expected to predominate in Great Britain as to its political mission in India the first difficulty must gradually diminish. As to the second impediment also, public opinion in India is bound, year after year,

to carry more weight in the conduct of this country's affairs, and that opinion must become the final judge in matters of the state's economic policy. There is no need to fear that responsible Indian opinion will be hostile to British interests, though it will insist upon the interests of this country being shown prime consideration.

It is well-known that the educated classes in India are keenly desirous of seeing their Government adopt a policy of Protection and give direct assistance to the industrial progress of the country. With rare exceptions, the bulk of the educated people have no faith in abstract free trade and they would like their state to revive and stimulate the indigenous industries just as the Governments of America, France, Germany and Japan have done. Mr. Valentine Chirol remarks:—"It must be remembered that the desire for Protection is no new thing in India. Whether we like it or not, whether we be Free Traders or Tariff Reformers, we have to reckon with the fact that almost every Indian is a Protectionist at heart whatever he may be in theory."\* For the past generation, students of economics and leaders of public opinion in India have been pleading for protection. Men like the late Mr. Justice Ranade and R. C. Dutt have shown in their works how under a *regime* of Free Trade, India's industries have decayed and how therefore they require the fostering care of the state. The Presidents of the Indian Industrial Conference have harped upon the

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\* "Indian Unrest."

same theme year after year and the Indian press and platform are clamouring for Protection. Indian Protectionism is no sudden outburst of popular caprice or of love for a new theory, nor a passing wave of an ignorant public agitation. It is the outcome of a long and careful study of the past and contemporary history of this and other countries and the result of the mature judgment of its thoughtful and far-seeing leaders. There can be no doubt that some of the exponents of Protection in India have shown a tendency towards hasty generalizations and have lacked the broad outlook and the grasp of the momentous issues which that problem involves. Some of the more intelligent and coolheaded among them entertain grave doubts as to the beneficent effects of a policy of wholesale Protection introduced in India. This is, however, a difference of degree, one of method and immediate policy. There is a consensus of opinion in the country that the existing system of Free Trade must go and must give place to one which is more suited to the needs and peculiar conditions of the Indian people. Even Lord Minto has given expression to his conviction that some amount of Protection such as the self-governing colonies like Canada have been giving to their industries, is needed in India if its indigenous industries are to revive.

The Free Trade-Protection controversy is a very old one and the arguments for and against either policy may be seen marshalled in any decent text book on Political Economy. It is, however, yet a burning

question in England. Free Trade and Protection have become the watchwords of political parties there and the tariff reform agitation has given birth to copious literature on the subject. So far as theory goes, it is difficult to make any useful contribution to the discussion as the question has been looked at from every point of view and all conceivable arguments have been exhausted. The proposition that Free Trade must ever be good for all countries is no longer accepted as gospel truth, and the decision of the question in any particular case turns upon whether a policy of let alone and free competition or of Protection is best suited to the given conditions. It is not a purely economic problem to be discussed in the academic fashion. Political, social, and national considerations play an important part in the practical discussion. Advanced economic theory also justifies the adoption of a Protectionist policy by nations in certain stages and circumstances. Protection is not certainly a panacea for all industrial and social backwardness and may exercise deleterious influences upon nations going in for it. Free Trade may, again, be calculated to promote the best interests of a people. The balance of advantages is, however, likely to lean towards a Protectionist policy and it is on this ground that it is being followed by the United States of America, the countries of the European continent and the British colonies. Indian advocates of Protection desire to profit by their own past experience and the example of other countries. They take exception to the doc-



trine that because Free Trade is good for England it must be equally good for India, which has swayed the policy of the Imperial Government in this country. They plead for liberty to their Government and to themselves to decide whether Free Trade or Protection is needed in India and what form either policy should take. It is a matter which must be considered on its own merits and dogmatic Protectionism would not be less injurious than theoretic Free Trade has been.

As commonly defined, Protection as a policy is an attempt to develop a manufacturing industry by a system of discriminating duties on manufactured goods imported from other countries. This definition is, however, too narrow and does not take account of other factors supplementary to this fundamental one and designed to emphasise its purpose. Protection should therefore, be defined so as to include all means by which a country undertakes to secure, through positive efforts of Government, complete industrial and commercial development of all its resources. Protectionist policy embraces all those pecuniary or other sacrifices which a country may make in order to develop its industry and commerce and is justified on political, economic and social considerations. Looked at from this point of view, England, the stronghold of Free Trade, is itself to a certain extent, Protectionist.\* The development of the Protective system is due to the growth of capitalism and national states. As a doctrine, protection is a modification of the old doc-

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\* Encyclopædia Britannica, 11th Edition.

trines of mercantilism and the state is looked upon as a powerful means of developing industries. In modern times the doctrine dates from Alexander Hamilton who propounded that the highest development of a nation's industries was to be achieved by protective duties and his programme was adopted by the United States of America. For the ultimate good of the nation the consumer was to be made to bear the burden of taxation. Like the American Hamilton, the German List thought that Protection was to be adopted as a temporary measure for developing a nation's industries. Free Trade was accepted as generally true but was suited to a cosmopolitan stage to which the world is progressing. For the attainment of this end each nation must develop its own resources to the full. While Adam Smith's system of political economy was cosmopolitan, that of List was national. In the hands of other Protectionist economists like H. C. Carey and Patten, Protection changed from a temporary expedient to gain a specific end to a consistent endeavour to keep society dynamic and progressive. Economists of other schools, with the exception of rigid British Free Traders, have allowed a relative validity to the doctrines of List, and the historical school of economic thinkers generally looks at Protection from political and social considerations rather than the purely economic one. It is in this wider sense that the word Protection is used in India when the state is called upon to grant protection to the indigenous industries. A policy of protection does include the raising of im-

port duties upon foreign goods coming into competition with the domestic products, but a high tariff is only one of the means of achieving national progress. The later trend of economic thought is entirely in favour of an extension of the province of the functions of Governments which were restricted within the narrowest limits by the earlier economists, and it is considered as a legitimate duty of the state to undertake pioneering work in connection with new industries and in other ways directly to promote the growth of national wealth. In a backward country like India which suddenly found its industries confronted by improved European manufactures, this duty of the state becomes more imperative than elsewhere. The British Government in India has shaken off, in certain matters, the shackles of the rigid economic theory of Free Trade and of the legitimate functions of the state, and there is no reason why a further advance should not be made along the selfsame lines. "If the State can legitimately undertake from borrowed funds the construction and subsidization of railroads and canals, if it can afford to sell the fee simple of waste lands at nominal rates to European settlers on the hills, the road is certainly open for a further development of this same industrial effort on new lines."\* Mr. A. Latifi, I.C.S., in his "The Industrial Punjab" observes:—"Most people now admit that it is an important function of Government to develop the strength and skill of the people, to induce them to economise their energy by

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\* Kanade's "Essays on Indian Economics."

the aid of science and art, and by the multiplication of industries, to afford them a livelihood from the greatest possible varieties of sources.....The disputants have often argued with the conditions of different countries and different ages before their eyes, forgetting the homely saying that what is one man's food may be another's poison. Nobody denies, however, where private enterprise is, for any reason, unable to develop a given industry, even a free-trading state may lawfully create a condition of things that will set private enterprise in motion."\* As an illustration of what the initiative of the Government, supported by the hearty co-operation of the people can achieve within the lifetime of a single generation Mr. Latifi mentions the state of Wurttemberg in the German Empire where within fifty years a purely agricultural country was transformed into a highly developed industrial state. This wonderful result was due to the feverish activity which ran in all directions, the introduction of schools for teaching trades, advancing money for the establishment of industries, the starting, by the state itself, of new industries to be ultimately absorbed by private enterprise in the form of companies or associations, sending skilled workmen abroad to acquire a knowledge of new methods in trade and agriculture and so on. The year 1868 marks, in Japanese history, "the commencement of a new policy under which the commercial and industrial interests of the country have been aided by lavish expenditure on technical educa-

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\* "The Industrial Punjab" by Mr. A. Latifi, I.C.S.

tion,' by the dissemination of useful intelligence, and by the subsidising of struggling industries.....It was the Government that pioneered the manufacture of cement, glass, soap, paper, paint, type and machinery."\* It is only within recent years that the cause of industrial development has been taken up by the state in India, and its attention has been mainly confined to improvements in agriculture. But what can it show to compare with the astonishing zeal of the Japanese Government, which has worked miracles within the space of a single generation? We are going at a snail's pace where we are moving at all, and laying the unction to our souls that we are doing our best and that nothing more is practicable. What a vast field is open for activity in agriculture and industries dependant thereon, let alone other industries and manufactures such as paper, glass, oils and so forth, may be seen from the discussions on the subject held by the Board of Agriculture at Pusa.† Among other resolutions passed by the Board on the Sugar Industry which is now receiving its particular attention, was the following:—"The Board recommends that Local Governments should be empowered to assist pioneer factories, by subsidy, by taking deferred shares, or by such other methods as may be appropriate; and urges the need for a reconsideration of the recent orders of the Secretary of State, in so far as they prevent the application of public funds to the development of those industries

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\* "The Industrial Punjab" by Mr. A. Latifi, I. C. S.

† Proceedings of the Board of Agriculture in India held at Pusa, November 1911.

which are essential to the increase of the wealth of the agricultural community." The Secretary of State, during the *regime* of Lord Morley issued certain orders limiting the power of Local Governments which were thereby precluded from giving effect to the above resolution and the Board urged that those orders should be reconsidered in the interests of agriculture and such agricultural industries as oil-pressing. The attitude of the Secretary of State in this matter betrays the blind faith of a devoted adherent of the rigid doctrines of the old school of economists and it is the emancipation of the British Government in India from the thralldom of exploded economic theories that the advocates of protection in India are pleading for. The departure which the Board of Agriculture seeks in one industry must be extended all along the line if the economic and industrial situation in India is to undergo any appreciable change for the better. This demand is the essence of Indian protectionism which is broad-based upon advanced economic theory and appreciation of the practical needs of this country.

The question of protection received prominent attention in the discussion, in the supreme Legislative Council some time ago where the Hon'ble Pandit Madan Mohan Malaviya moved his resolution in favour of a higher import duty upon foreign sugar. The Pandit based his contention upon the principle that "a nation must sacrifice and give up a measure of material prosperity in order to gain or retain the power of united production ; that it must sacrifice some present

advantages in order to insure to itself future ones." In theory this position is unexceptionable, but the practical action must be determined by various considerations in each case. Any one who knows the present condition of the indigenous sugar industry is aware that an enhanced import duty upon foreign sugar, which may be defensible on other grounds, cannot be supported by the argument that it will result in any immediate and direct benefit to the industry. One great objection to protective duties is that they produce powerful combinations of manufacturers and merchants whose operations are not always beneficial to society at large; and it must be taken into serious consideration when we devise such duties. Speaking on the subject of the suggested sugar duty in the Viceroy's Council, the Hon'ble Mr. Gokhale observed:—"The right kind of protection is that under which the growing industries of a country receive the necessary stimulus and encouragement and support that they require, but under which care is taken that no influential combinations, prejudicial to the interests of the community, come into existence. And I believe that the right kind of protection, if available, will do good to India. But Sir, situated as India is, I fear there is no likelihood of that kind of protection being available to us, and it is my deliberate conviction that in our present circumstances, a policy of free trade, reasonably applied, is, after all, the safest policy for us." And further:—"If the Government of India or the Secretary of State had the power to grant protection in the present circum-

stances, I am not sure that it would be employed in the best interests of the people of this country. I, therefore, personally, do not ask for a high protective tariff but I urge that an inquiry be first made to find out in what way and to what extent the state can help this industry." It is not difficult to discover what was at the back of Mr. Gokhale's mind when he expressed a doubt if protection would be employed in the best interests of the people of this country. Excepting the cotton mill industry, the other manufactures in this country which are in a flourishing condition, are almost all of them in the hands of non-Indians whose organization, power, wealth, up-to-dateness and influence with the Government here and in England, are well-known. A high tariff wall raised against foreign sugar will immediately be taken advantage of by European manufacturers and merchants, leaving Indians hardly better off than before. India may incidentally gain but it is a delusion to suppose that there will be any direct and substantial benefit to the people themselves. The tea plantations, jute cultivation and manufacture, the mining industry are illustrations which show conclusively how Indians have not been able to exploit the resources of their own country and how the work has been successfully done by European enterprise armed with various advantages. Protective duties or no protective duties, the factor of European manufacturers and merchants must dominate the industrial situation and Indians have got to make the best of the same. It is inevitable in the peculiar circumstan-



ces of this country that purely Indian enterprise must step forward and rub shoulders with its European competitor and rival. Whenever a new industry is started with Government co-operation such as the paper or match industry, for example, European enterprise is bound to be the first in the field and it will be the fault of the Indians themselves if they are slow to take their proper share in the industrial development. This aspect of the situation has been grasped by certain well-meaning opponents of Indian Protectionism and should be clearly understood by all who are interested in the question. There is an amount of truth in the shrewd remarks made by the Hon'ble Mr. A. Chatterton in this connection. He says:—"What I would submit for your consideration is that even if protection were desirable, you are not ready for it. There is no fund of capital seeking remunerative investments. Industrial leaders with technical skill and business experience are non-existent and the operative labour could only be obtained with difficulty and would require training from the very beginning. *You might exclude British manufactures, but you cannot exclude the British manufacturer.*"\* Mr. Chatterton, it must be stated here, is far from right when he assumes that the object of the Indian Protectionist movement is chiefly to exclude British manufactures and that "the recent cry for industrial development comes from a small minority of unemployed educated people who have not yet found a suitable niche for themselves."

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\* The Journal of the South Indian Association, April 1911.

This misconception notwithstanding, his estimate of the industrial needs and prospects in India, is substantially correct and must be borne in mind by all those who are inclined to suppose that protective duties are a panacea for the economic distemper of the Indian nation. What Indian protectionists must press for is a relaxation of the rigidity of the present almost passive economic attitude of the Imperial Government with respect to the industrial development of the country. They must persist in the demand that the Indian should take vigorous steps to stimulate industries in every possible way and not leave the people to themselves in the matter. Every case of protective duties will have to be judged on its own merits ; but there can be no doubt about the general responsibility of the Government towards the people with regard to industrial development. To insure against and minimise the disadvantage to Indian enterprise of the powerful competition of European merchants and manufacturers in India, it has been suggested that Government should insist that a certain proportion of the capital invested in every new concern must be purely Indian. But it is difficult to conceive how the state can be brought to accept this suggestion in the face of the opposition that is sure to be raised against it. It, however, shows the manner in which the policy of the Government of India ought to be shaped in the interests of the people of the country. Indian Protectionism is thus emphatically a national policy designed to promote the industrial and economic progress of

the people and as such ought to find favour with Government. The state in India has, however, its own difficulties and it is through them that we have to march towards the goal. Mr. Chatterton, who takes the Indian Protectionist movement in its aspect of tariffs only, is nevertheless of the opinion that "a little paternal assistance of a direct character, the cost of which can be accurately determined and the operations which we carried on definitely limited, is a more logical and businesslike method of dealing with the industrial question than subjecting the whole country to a system of tariffs which will increase the cost of living and direct energy from its natural channels into artificial courses, most probably not leading to the best utilization of the resources at our disposal." This position is a reasonable compromise between the two Free Trade and Protectionist extremes and is deserving of serious consideration.

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## XII.

### INDIAN PROTECTIONISM.\*

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In his small book entitled "India and the Tariff Problem", Prof. Lees-Smith has devoted one chapter to the discussion of Indian Protectionism, and after briefly examining the question from the theoretical and the practical standpoint he has come to the conclusion that Protection is an evil in general and particularly in the case of India it would be a serious evil. He warns educated Indians against the grave dangers that are sure to come in the train of Protection. A survey of the Indian industries leaves him unconvinced of the benefits which people in India credulously believe will accrue to them. He is all the more anxious to wean away educated Indians from the undesirable tendency towards protection as he feels convinced that the symptoms of the disease are already clearly discernible in them. Germany, America and other countries are, by this time, in the firm grip of the fell disease and there is no curing them. At least Prof. Lees-Smith and his brother economists are not the physicians who will be consulted in the matter. But India's malady is yet in its earlier stage and educated Indians may be recalled to a sense of the risk they are running in exposing themselves to the infection of the protectionist countries

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\* Contributed to the "Wednesday Review," 1910.

of the world. He, therefore, wants a strong free trade school to rise among Indian thinkers and administrators. Nobody indeed wishes that India should blindly go in for Protection without carefully balancing the advantages and the disadvantages of a policy of Protection. It would be suicidal to do so. We have to take account of our possibilities and limitations and ought not to run after Protection simply because some other countries have done so. The protectionist tendencies which have recently developed themselves in England and this country are a reaction against Free Trade which, under the present circumstances of the two countries, has been weighed and found wanting. Protectionists here and in England appeal to experience and example. They do not propose to adopt a full-fledged scheme of protection all along the line. It is to be resorted to only in those directions in which it is calculated to prove beneficial. But as a warning finger has been raised it becomes necessary to reconsider carefully the position of Indian Protectionism.

Prof. Lees-Smith's first argument against Protection is that the industry which enjoys that favour is enabled to levy a tribute upon the community. The consuming public has to pay a higher price for the protected commodity and is thus subjected to a kind of blackmail. He does not believe that the protective duty may be paid by the foreign producer and states that Protection can only be effective in so far as it raises prices. It is no doubt the main object of protective duties to raise the prices of foreign

products and thereby minimise foreign competition. But certain cases may be conceived in which the foreign manufacturer has to pay the duty, if he wishes to maintain an effective competition. Let us suppose that a country has a monopoly in the manufacture of a certain article. It will be in a position to fix its own price of that article. If one of the consuming countries breaks that monopoly by manufacturing the article locally and levies an import duty on the foreign product, the foreign manufacturer to keep up the competition, must lower the price and pay the duty. He may afford to do so if he has been making large profits, which will now be diminished to the extent of the duty he has to pay. Or he will have to curtail his exports. Prof. Less-Smith says:—"If the foreign manufacturer pays the duty and sends the goods at the same price as before, there is no advantage to the industry which is being protected". Why, the advantage in this case lies in the handicap placed upon the foreign industry, which must be worked at a disadvantage. We often complain of cheap and inferior goods dumped into our markets. The manufacture of these may be discouraged and the competition may disappear to the benefit of the home industry. If the foreign industry is a subsidised one, the subsidy will have to be removed. It is the essence of countervailing duties to threaten retaliation and neutralize the effects of artificial stimulus in foreign countries. Prof. Lees-Smith indeed admits

that there are certain cases in which protective tariffs fall, to a greater or less extent, upon the foreign producer, and that therefore the prices are not raised to the full extent of the duty. But he says that these instances are of importance only when duties for revenue are being considered. It is however unnecessary to labour the point. It may be admitted that the majority of import duties fall upon the home consumers as they raise prices. We may here ask, if protective duties are a self-inflicted evil which does not affect the foreign producer, why did Lancashire cotton manufacturers, for instance, raise such a hue and cry against the import duties on their goods, even when they were avowedly levied for revenue purposes? Our cotton excise duties bring in a paltry forty lakhs at the most and cannot be represented seriously as being imposed for revenue purposes. Free Trade Lancashire should have pitied India and left her to suffer in her error. But manufacturers in Lancashire obviously felt that the import duty was in its tendency a protective duty. A protective duty, according to Mr. Lees-Smith's showing, raises prices and is not paid by the foreign producer. If that is so, why did Lancashire producers press for the countervailing excise duties on Indian mill products? Prices of imported cloth would have been raised in our markets and we should have paid the duty. Of course it was the fear that they would have to lower or forego their profits to pay at least a part of that duty and

indirectly assist the Indian mill industry that led Lancashire to complain. Free-traders cannot object to what are called revenue duties and many of these may turn out to be protective. A statesman may try to kill two birds with one stone. A revenue duty may be so devised as to give protection to a home industry, and the statesman cannot be charged with committing the sin of protection. When an import duty raises prices in the market to the full extent of the duty, it is the consumers who pay it. The problem of raising an increasing revenue necessitated by the advance in expenditure has become very difficult in this country and it was only recently that four fresh duties had to be levied for the purpose. For carrying out certain improvements and for education, sanitation and other purposes funds are needed and they have got to come out of the pockets of the people or all progress and reform must cease. People must pay for all-round progress and good administration. Taxes like the salt duty &c., are out of the question. The Finance Member this year had to tax four of our imports—of course for purposes of revenue—and it was complained that they gave protection to the Indian tobacco industry and petroleum. While speaking of these new taxes Sir G. F. Wilson anticipated the certain protests against his policy by emphatically asserting that they were purely revenue duties and said that if they perhaps tended to give protection to an Indian industry he would not be sorry. The world is led by



labels. Call a tax a revenue tax and the Free Trade conscience is satisfied. The popular representatives in the Imperial Legislative Council who pleaded the urgent necessity of introducing a scheme of free and compulsory education, were willing to tax some of their exports and imports. They would even welcome an all-round increase in the import duties. If we must tax ourselves for the improvement of our country, why not devise the taxes in such a way as to be both productive and protectionist? Then the objection of protective duties levying a tribute upon the customers would be deprived of all its point.

Prof. Lees-Smith thinks that another argument in the armoury of popular protectionism, viz, that it "gives employment," is always fallacious, and is peculiarly foolish in India. There is no need here to give employment as the local industries are already clamouring for labour which they find it difficult to obtain. This view betrays an entire misapprehension of the real situation. The fact that there is a scarcity of labour in certain industries does not mean that there is more work in India than there are men to do it. Far from it. Modern industrial conditions have not yet superseded the older methods to any appreciable extent. Movement of labour to industrial centres is not easy. Conservatism has made Indian labour stiff, and deprived of its old associations, it has not learnt to take to new ones. But it is a patent fact that the decay of the old industries has driven the craftsmen and artisans, to agriculture

which is more than overcrowded. Prof. Lees-Smith himself has quoted in the first chapter of his book the oft-quoted opinion of the Famine Commission of 1880 that "no remedy for present evils can be complete which does not include the introduction of a diversity of occupations through which the surplus population may be drawn from agricultural pursuits and had to find the means of subsistence in manufactures, or in some such employments". This clearly shows that employment has to be provided to thousands of poor people who for want of work are driven in times of scarcity to famine works. They cannot be supplied with work unless new channels are opened out for them. And the starting of new industries in these times of hard competition means Protection. Our ignorance and misplaced charity are no doubt responsible for the large numbers of sturdy beggars and vagrants who stalk the streets. But even when they are reclaimed from a life of idleness and dependence, the problem of providing them with work remains—nay, becomes more difficult still. The "employment" argument is not, therefore, so foolish as it looks to superficial observers. We shall have to teach our masses how to adapt themselves to the new conditions but in the meanwhile we must make provision for the work they will demand.

Indian Protectionists do not deny that protective duties will lay a burden on the consuming public. They know that a policy of protection will entail on

them great sacrifices. But who will not make reasonable sacrifices when they are needed for the good of the country? Free-trade critics cannot have failed to observe that the Government of India has been slowly drifting towards Protection. It has been patronising some of the Indian manufacturers and assisting Indian industries in various ways. It has issued orders to the effect that all stores required by the various departments should be locally purchased as far as practicable. The funds devoted by the Government to the improvement of agriculture and industries in various ways come from the pockets of the people. They are derived from taxes. What harm is there then if they are further taxed for a similar purpose—the encouragement of home industries—by means of protective duties? Looked at from this point of view the duties would not be a tribute or burden. Like other taxes they must be regarded as payments made for the beneficial and efficient administration and the development of the country. But it may here be asked, have the sacrifices it is proposed to make on the altar of Indian Protectionism, any chance of compensating for the losses incurred? The sacrifice may be no real sacrifice. The tribute paid may be regarded as merely an investment of capital. Will this capital, however, bring in any return? Or will it be a dead loss to the country entailing untold difficulties and embarrassments out of which it will be difficult to come off safe? This question leads to the consideration of the famous “infancy stage” argument in favour of Protection.

Even the most exacting free traders who first unfurled the banner of the freedom of trade from the many harassing restrictions which had for centuries cramped the movements of commerce and industry had to concede that in the case of rising industries some fostering care at the hands of the State was necessary to ensure their healthy growth. The infant has to be taken by the hand, led and made to walk, if necessary with the help of a go-cart, till it can do without this external and artificial stimulus. The latent possibilities of a people and the natural resources of a country cannot be developed unless during the early stages some protection is given to them against the competition of grown up and thoroughly settled industries. It is not only in the interest of a particular people or country that such protection is called for ; the world at large is calculated to derive benefit from the increased output of commodities and the consequent increased supply thereof. The attainment of the main object which free traders have in view, *viz.*, the cheapening of goods by their being produced under the most favourable conditions and their unfettered distribution through all parts of the globe, is facilitated by the policy of protecting infant industries till they are strong enough to stand on their own legs and take care of themselves. The infancy stage argument acquires a peculiar force in a backward country like India surrounded on all sides by competitors thoroughly armed and equipped with scientific knowledge, capital, skilled labour and high tariffs. Everybody admits that this country is

capable of producing a variety of manufactured articles which are at present imported in large quantities. We have a fertile soil that produces all kinds of raw materials, the food of manufacturing industries. We have cotton and jute, sugarcane and tobacco, oilseeds and woods of different species, wheat and rice—all these we have in abundance and their output may be indefinitely expanded. But if the industries in connection with sugar, tobacco, paper, matches, leather, oil etc, are to be established, besides other important requisites, some insurance against foreign competition is essential at least till a certain stage in their growth has been reached. The question has also to be looked at from the national point of view. The development and prosperity of nations and peoples calls for State interference with the liberty of exchange. National and racial preservation is a factor which cannot be ignored in these times of the growth of solid nationalities. The ideal of the brotherhood of man, very fine so far as ideals go, is and even has to be, forgotten in practice. The cry of tariff reform in England, of protection in India and of Imperial preference throughout the British Dominions is primarily inspired by this national and imperial instinct. Germany and America, Japan and Australia have been animated by their self-interest. The Mercantile System and the Navigation Laws, so full of erroneous economic conceptions, were still based on selfish motives inherent in human beings and did much to strengthen and enrich England before the policy of *laissez-faire* came into vogue.

That policy promoted the economic growth of England for some time and now a reversion to restriction is also being advocated on national grounds. It will thus be clear that a practical economist and statesman cannot afford to preach mere theories, and a protection to infant industries is sanctioned by economic principles as it is necessitated by national considerations.

Prof. Lees-Smith agrees that the infancy stage argument which countenances a temporary tribute on consumers on the ground that it will be more than repaid by the profit which the nation is sure to derive from the adolescence of the infant industries does not contain any such logical impossibilities as are found in the case for popular protection. But the free-trader's objection to this argument is that the so-called infant industries have a curious knack of remaining infants for years and years together. Once an infant always an infant, is their motto. The sacrifice to consumers, regarded as temporary at the outset, becomes a permanent charge on the nation. If an attempt is made to remove the duties levied for the protection of new industries, an interested outcry is raised which the Government is not strong enough to resist. Vested interests are created behind the tariff walls and protected industries become permanent invalids and heavy burdens upon the nation. One industry after another is admitted to the charmed circle of the old nestlings and we have protection established among us in its worst and most obnoxious form. This free trade view of the infant industries has, it must be frankly conceded,

some basis of truth, and the evils of the growth of vested interests and the continuous fattening of inflated and dependent industries, may be seen in America and other protectionist countries. But something may be said in favour of industries enjoying this sort of State support. If the manufacturers remain idle, conservative, and dependent under the shadows of the tariff walls, doing nothing to improve themselves, they will have levied a blackmail on the nation, and to protect them would be to place a premium on idleness and inactivity. In free countries like England where all classes are represented in the national legislature, it will be the people's business to decide how far protection is beneficial or otherwise under given conditions. And national considerations may outweigh the purely economic in arriving at the decision. If the people believe that the sacrifice to the nation due to protection is worth undergoing they will prefer to persist in their policy of protection. The free-trade-protection controversy, it must always be borne in mind, is not purely economic in character. There are a number of currents and cross-currents, political, social and racial, which have shaped and will shape the policies of nations. In spite of the advance made in the science of economics during the last century, the inexorable fact remains that national interests must continue to dominate in fiscal matters. Though the errors of the Navigation Laws and the Mercantile System have been corrected, their spirit yet remains and has taken new forms. Whatever the applicability of the infant indus-

try argument and popular protection in Western countries may be, the case in India is quite clear and we are immediately concerned with it. We ask the free trader, what would he advise us to do in the present economic conditions of this country? Almost all our industries are in the infancy stage. How are they to grow in the face of the formidable rivalry of foreign manufacturers? If we appeal to history we shall find that it does not furnish a single example of new industries having thriven under a pure policy of free trade. Even England, the home of free trade, is not an exception. Free trade is also a policy which cannot be confined to and depend for its success on, one country. To be successful, it must be adopted by the majority of the chief nations of the world. The hopes of English free traders in this respect have been belied by the course of events during the last generation. The world has refused to be converted to the faith of free trade so piously preached by English economists. On the contrary, the modern school, the national and historical school of economists, has successfully demonstrated the abstract and impracticable nature of the doctrines of the old school. Under these circumstances what is the use of a solitary nation holding fast to its banner of free trade when the rest of the world has already outstripped it by the strength given to it by a policy of protection? Without State help of every kind the case of our indigenous industries is simply hopeless. We indeed appreciate Prof. Lees-Smith's suggestions as to how the evils of protectionism in the case of infant industries



may be minimised, when he says that the period of protection should be limited at the very outset and the limits once laid down should not be allowed to be over-ridden. It must not however be forgotten that the analogy between the human infant and the industrial infant is not so close as it is made to appear. The period of industrial infancy cannot in all cases be arbitrarily fixed at fifteen or twenty years as Prof. Lees-Smith suggests. That infancy is comparative. We may have old infants among industries. That depends on environments. The Indian paper industry outgrew its infancy in a few years and competed successfully with its rivals. It could do without any external assistance. But very soon the use of wood pulp by foreign paper manufacturers who could produce a better article and undersell us at the same time, converted our adult industry into an infant and we are once more where we were at the beginning. Here the infancy period must be resumed and prolonged. An affectionate and dutiful mother cannot, besides, throw away or neglect her children if they turn out weaklings. She must, as it is her duty to do, try to bring them up properly, train them, educate them, support them and her affection toward them cannot slacken though they outgrow their childhood. Something of this kind happens in the case of industries, and however wayward, idle and naughty they may be, a nation cannot turn its back upon them. National comfort, wealth, strength and prosperity depend upon industries and to protect

them is to protect the people themselves against poverty and unemployment. We have, however, no objection to the experiment of limiting the infancy period being tried in India. It is very easy to point out the evils which a resort to Protection may entail on the country but the free traders must come forward to show how Indian industries are likely to grow without it. Japan has demonstrated to the world what Protection can do for a backward country—an Asiatic country too, not to speak of Germany, the most formidable rival England has in Europe to-day. Japan is slowly laying the foundations of a powerful cotton textile industry and ousting India out of her own and the other Eastern markets. Her new tariff has evoked complaints even in England and threatens to affect the Indian industry. Outside competition is making the position of English free traders shaky, and some of them are trying to derive all advantages of protection while nominally professing their old faith. There is no escape therefore from the conclusion that in Protection—of every kind and in every shape—lies the economic salvation of this country. Our land revenue has now reached limits beyond which it is not possible to go, at least for many years to come. If more revenue is needed, as it is needed to meet the growing wants of the country, let the import duties on various manufactured articles, excepting some of course which need not be mentioned, be raised all round by a substantial percentage. The same may be done with regard to exports. Much discrimination must, no

doubt, be exercised on devising such a tariff. But the beginning has been made and we now know that revenue duties can be protective in their tendency. If articles to be specially taxed are judiciously chosen, infant industries will get a stimulus and our financial position be improved.

The case for Indian Protectionism is so strong that it should not, really speaking, require such an elaborate statement and defence. And we would not have bestowed so much attention upon it in considering what position India ought to hold in a scheme of Imperial Preference, had it not been for the fact that India has very largely figured in the recent discussions on the free-trade-protection question and the wisdom of our desire to protect the indigenous industries has been seriously doubted. The latest and the most notable of our critics in this matter is Professor Lees-Smith who very lately visited this country to study its conditions and has now given his verdict against Protection. We have already attempted to examine some of his arguments and proceed to consider his position further. Such a reconsideration of our views becomes necessary when their truth has been called in question. On a consideration of the special conditions of India, the dangers of Protection appear to Professor Lees-Smith even more serious than they can possibly be elsewhere. He argues that Protection tends to sap the vitality of industry and weakens the edge of competition whose pressure is the very essence of progress. It is no use point-

ing to the precedents of other countries such as the United States, Germany and the self-governing colonies. Each of these is remarkable for the natural vigour of its people and their energy is too great to be damped by Protection. Mr. Justice Ranade is quoted to show how conservative and unenterprising Indians are and how their many weaknesses are stumbling blocks in the path of their economic progress.

Now nobody denies these weaknesses and it is the main object of Indian Protectionism to try to remove them. Protection is one of the means we want to adopt for overcoming the defects which are inherent in our character, institutions and manners. Nobody in India would seriously advocate a sole reliance on State aid but every one is convinced that attempts to develop the country's resources must fail if they are not properly backed up by the State. Protection may sap the vitality of industry after it has reached a certain stage. To support a person in health and vigour by crutches is to make him weak and dependent. Competition is a useful stimulant. A struggle strengthens the nerves of the combatants and the greatest good is obtained from a free competition among various parties contending for victory. But in order that there should be a free and wholesome competition there must be an equality between the combatants. To speak of a fair competition between a giant and a dwarf is an abuse of language. To try to shelter the sturdy oak against

sun and wind would be superfluous and to leave young plants to the tender mercies of the inclement weather is unwise. Indian industries which have yet scarcely shot up above the soil are sure to be swept away by the hurricane of foreign competition. They have to be nursed and protected till they can be suffered to take care of themselves. Competition will become effective and beneficial where the competitors have equal chances given to them. Indian Protectionists do not claim protection for the primitive industries or for industries which are well established. They do not seek State interference in favour of the primitive method of extracting oil or of spinning cotton thread or of making paper. That would be to perpetuate old evils. Yet new sugar and match factories, and such other concerns do require assistance till they are able to stand on their legs. The question is about infusing life into industries in the embryonic or infant stage. There is no vitality in them which Protection may sap. That vitality is yet to be created in the industries of India. It would be useless to expect new industries on modern lines to rise and thrive unless in the initial stages they are propped up by Protection. As for the competition which is necessary to stimulate manufacturers into constant activity, we can have it in the country itself, where the various concerns will struggle to improve upon each other by endeavouring to reach foreign models. The protected and bounty-fed industries of Germany and Japan are making rapid strides instead

of decaying, and are snatching the world's markets from England's grasp though the dispiriting and enervating influence of Protection is not there to damp her energy. But America, Germany and Japan are nations remarkable for the natural vigour of their people while India is an inert mass with no enterprise, no self-reliance and no physical and intellectual vitality ! It is, however, a patent fact that these nations have evinced their vigour in industries only within the last few years. Where was then the natural vigour of the Germans and the Japs before it was brought out recently by the strenuous policy of Protection adopted by them ? It was latent in them which favourable circumstances have shown now to great advantage. India was long known for her arts and industries, for her skill and even enterprise. Indians will yield to no people in the world in their capacity for any work of skill, for deftness of fingers, for steadiness in labour, and inventiveness of intellect. They have lagged behind other peoples and nations in the race of industrial progress, and hence we see dense ignorance, conservatism, sloth and inertia. But there is here excellent material which requires proper direction and stimulus. Who could have credited the Japanese fifteen years ago with the manly vigour, the enterprize and the pushfulness which is the admiration of the whole world to-day ? The Russians have learnt to know them better only after a disastrous war. The Japanese, like the Germans have reared their national industries under the genial

and fostering influence of Protection, and their new tariff recently published, has evoked a storm of complaint against them because it is aggressively Protectionist. Nobody can be bold enough to say that the Indian inertia is a permanent drawback implanted by nature which no efforts can possibly remove. Even admitting that we have not done all that is expected of us, to help ourselves, it is unfair to say that Indians are too dependent. Every people has so depended on its State. To deny protection to Indian industries on the ground that the people here are idle, is to stamp them permanently with the stigma of national incapacity and want of aptitude. They are very ingenious critics indeed who would refuse State assistance to our economic progress because we have a number of weaknesses. That is the very ground on which Indian Protectionists take their stand. Weakness must be supported into strength more than strength bloated into unnatural shapes. We repeat that Free trade and Protection as a fiscal policy is a national concern. No abstract reasoning and theorising on the progress of the world at large can help us in deciding the question so far as a particular people are concerned. A far-sighted statesman has to take things as they are and not quarrel with his tools. None is more conscious of their weaknesses than Indian Protectionists themselves. Mr. Ranade, who pointed to our national defects, was the first eminent Indian who exposed the fallacy of free trade as applied to this country and founded Indian Political Economy. He always laid

stress on the need of our helping ourselves but at the same time advocated an overthrow of the abstract theories of the economists of the old school who would confine the duties of the State to the elementary function of affording security of life and property. His State-help included differential duties. If he did not emphasise the point it was not owing to any disapproval on his part of a policy of Protection nor to a want of appreciation of the benefits that differential duties may confer upon our industries, but because he felt that the question was out of the pale of practical politics. It is no longer, however, a subject of mere academical discussion and therefore requires a careful exposition and emphasis. In fact, the whole of Mr. Ranade's lecture on "Indian Political Economy" (published in his "Essays on Indian Economics") is a spirited plea for Protection. Professor Lees-Smith, however, throws out a crumb of consolation by telling Indian patriots that statements of India's "stagnation, dependence, poverty and depression" need not make them too despondent. "The genius of the Indian people has not in the past been in the direction of Western scientific methods..... Providence has entrusted the British race with the task of guiding them in the unfamiliar paths of Western industry.....The extent to which the industries of India are controlled by her own sons will be the measure of the degree to which we have fulfilled our trust. We have no right to expect, however, that on the unfamiliar road that they are now treading they should easily strike out into fresh directions. The capacity



of the Indian peoples to adapt themselves to Western methods can only be judged after they have had full time to assimilate them." Following the lead of Mr. Ranade, Indian patriots regard India's connection with Great Britain as a Providential arrangement and England's rule over this country as a trust. They loyally insist upon this trust being properly discharged to the advantage of those whose destinies are thus held as a kind of trust. Firm attachment to British rule on the one side and beneficent direction of India's destinies on the other, may be regarded as the conditions of this trust. Professor Lees-Smith would, however, be satisfied to let the Indian industries have their own course. The doctrine of *laissez faire* appears still to dominate his ideas of Government's duty to its people. But modern developments of economic thought have enlarged the sphere of the functions of the State which are not to be confined merely to the maintenance of peace and order. "Even if political considerations forbid independent action in the matter of differential duties, the pioneering of new enterprise is a duty which the Government might more systematically undertake with advantage". (Ranade's "Indian Political Economy".) The State in India has already done much to free itself from the thralldom of *laissez faire* and free trade and what Indians wish their Government to do is the extension of the principle still further. It is not sufficient merely to leave Indian people to adapt themselves to Western methods and allow them full time to assimilate them. Something more than such a passive attitude

of let-things-alone is needed to set indigenons industries on their feet. We agree with Professor Lees-Smith when he tells us that conservatism is the fundamental weakness of the trade of India and that it ought to be overcome. Social reform and the wider dissemination of primary, technical and scientific education, co-operation and industrial organization, well regulated charity and enterprize—these are the directions in which serious effort has to be made. And every one who has even a superficial acquaintance with the trend of current public opinion and public effort, will admit that the last few years have witnessed a remarkable progress made in India in these various directions. The new mills and factories, banks and insurance companies, which are fast springing up in all parts of the country bear witness to this public activity. The helping hand of the state has to be lent to the industries whenever and wherever they want them. The conditions by which they are surrounded cannot be characterised as healthy. What form Protection should take, to what extent it should be accorded and in what cases it is desirable, are matters of detail. The fundamental position, however, that free trade in its undiluted form is unwholesome to the health of the Indian industries and that doses of Protection must be administered to them whenever needed, has to be clearly grasped. That what is good to England must also be good to other countries, is now an exploded theory, and when one country after another in the West as well as the East is be-

coming Protectionist, it behoves our people and Government to follow in their wake. It is the worst form of conservatism to stick to orthodox economic doctrines when they have been shown by reasoning and the cold logic of facts to be hollow.

An analysis of the reasoning of those who advocate a policy of free trade for India leads us to throw them into two groups. (1) First, there are those free traders who do not like to see the old orthodox faith losing its hold upon the minds of the people. They piously feel that unrestricted trade allowed to run freely over the world and industry allowed to thrive in congenial surroundings, will contribute to the welfare of humanity. Unrestricted competition, perfect freedom of exchange and the enlightened selfishness of man are the watchwords of this class. They wish to maintain Cobdenism as a living force. Though the Protectionist nations of the earth have emphatically rejected their doctrines, they would yet cling to the last hope. To them India presents a convenient field where there is scope for the application of their pet doctrines. Other nations cannot be reclaimed but India may be saved before it is too late. (2) The second group consists of people who are practical and are not enamoured of theory. England has prospered on free trade. It has supplied to her the food and the raw materials so necessary to her in her insular position and her exclusively manufacturing character. If free trade is given up, many of the world's markets which provide an outlet to her manufactures to-day will be

closed as foreign countries will retaliate on her. When once England has become a convert to Protectionism, she will have, in justice and fairness, to allow India also some measure of Protection. India is, however, one of her richest customers, and if she is permitted to remove the cotton excise duties and raise import duties on cotton cloth, Lancashire must suffer heavily. It is, therefore concluded, that free trade is the wisest policy that can be adopted in India. It is superfluous to add that the above arguments cannot appeal to the people and Government of this country to whom the interests of India must be paramount, and all other considerations subsidiary.

We have so far attempted to show that both from the economic and the national point of view the condition of India requires the adoption of a policy of Protection without which her industries can never hope to raise their heads. Having accepted this position it remains for us to see how such a policy can be worked in practice and how far it is compatible with Imperial Preference. Taking the first point first, we must indicate the nature of an Indian protective tariff. The framing of such a tariff presupposes a complete freedom to the Government of India in fiscal matters. To-day no import or export duty can be levied in this country, even for purely revenue purposes, without evoking an outcry of interested manufacturers and merchants in Great Britain. Whatever may be said in justification of the cotton excise duty, it has been admitted in high and well-informed quarters that it is a sacrifice India

has to offer on the altar of Free Trade and the interests of Lancashire. Mr. Montagu stated in Parliament the other day that the question of imposing an excise duty on certain kinds of tobacco as a counterpoise to the new import duty recently levied, is being seriously considered, though that duty has been avowedly a revenue duty. In the interests of Indian industries and finance the hands of our Government ought not thus to be tied down. They should be at liberty to devise their tariff in the way they may judge best, though it may have a distinctly protective effect. So long as Great Britain is in the firm grip of Free Trade such liberty is, of course, impossible. But we are now thinking what would be an ideal policy for India to pursue in her interest and how her attitude should be modified if England gives up Free Trade and becomes Protectionist. There is already a general tariff of 5 per cent, modified and moderated in the case of certain commodities essential to indigenous industries while some are admitted almost duty free. If the State is given the liberty to manipulate its tariff in consonance with its requirements, the five per cent duty may be doubled all round for the sake of increased revenue, so much needed to meet its expanding expenditure, of course, with the exception of certain articles. The countervailing cotton excise duties will have to go, and no complaint from outside on the score of unhealthy competition and so forth can be tenable. It is superfluous to add that the tariff will be framed after calculating all the effects on our

imports and exports and the probable retaliation of foreign countries. Foreign countries have such heavy tariffs against the commodities of the British Empire, and we shall only be following their lead in stimulating our nascent industries. Our country holds a monopoly in the production of many commodities which other countries cannot afford to forego, being either raw materials or articles of food. We have thus the export duty on rice; a similar duty may be laid on jute. In spite of the comparative inefficiency of labour and the excise duty, the Indian cotton textile industry has been making rapid strides. More capital is being invested every year and the out-turn of mills is increasing on a large scale. As India imports every year more than thirty crores worth of cloth from Great Britain, there is infinite scope for the expansion of this industry. If the import duty is once more raised to five per cent and the excise duty removed, a great stimulus would be given to that industry. It cannot be said that the peculiar advantage our mills enjoy in having the raw material at their doors has made them lazy. They have been making progress not only in the quantity turned out but also in the quality of the cloth. On account of the shortage in the supply of cotton all the world over, the Indian cotton is in greater demand in Japan, on the Continent of Europe and even in America. This increased demand last year pushed up prices and placed the Indian mills in a very difficult predicament.

If this becomes a permanent feature, the Government of India will have to levy an export duty on raw cotton going to Japan and the other countries to ensure an adequate supply of cheap cotton to home-manufactures. As regards the manufacture of leather, wool, paper and silk, it is alleged that their weakness lies in their backwardness and conservatism which no protective duties can possibly remove. This is, no doubt, true, and it must be confessed that our lack of capital, enterprize and scientific knowledge are responsible for the decay and the stationary character of these industries. Efforts are being made to remove these defects but success is slow and difficult. The competition of cheap foreign goods is as much an obstacle as our ignorance and inertia. The aid of Government in promoting scientific and technical education and in stimulating private effort to infuse a new life into these industries is urgently needed and the addition of an extra 5 per cent to the present import duty on these articles may be a welcome stimulant. The case of sugar manufacture is similar and the causes of its stagnation are the same. If the indigenous sugar sells at three seers a rupee, the foreign article, much finer than it, can be sold at four seers per rupee. An enhanced import duty will perhaps only raise the price of the foreign article without giving any impetus to the home-made sugar. Our primitive methods of manufacturing sugar will not allow us to compete with the foreign manufacturers equipped with up-to-date methods and machinery. Yet the principle of

protection was admitted and put into operation with regard to foreign bounty-fed sugar during Lord Curzon's Viceroyalty when the countervailing duties were imposed. That principle will have to be further extended when the necessities of the case require it. The ten crores worth of the imports of foreign sugar, in fact, make it the most desirable object for revenue taxation and when the question of raising additional revenue from customs was discussed in the Imperial Legislative Council at the time of the last budget debate, sugar was suggested as a capital object of further taxation. The difference in price between the foreign and the home-made article is so great that an enhanced import duty will not much assist the indigenous industry. But it will be considerably productive and will tend to lessen foreign competition. A duty on foreign sugar would have been more desirable than the one on petroleum, actually imposed, though in the case of the latter there are great possibilities of expansion at the expense of Russia and the United States. The production of Indian petroleum has risen from 19 million gallons in 1898 to 176 millions in 1908. The imports being yet very large, the new duty may stimulate the indigenous production still further. With reference to the protection of Indian minerals, Prof. Lees-Smith quotes Sir V. Ball who says that "were India wholly isolated from the rest of the world or were her mineral productions protected from competition, there cannot be the least doubt that she



would be able, from within her own boundary, to supply very nearly all the requirements, in so far as mineral wealth is concerned, of a civilised community." Protection is thus obviously needed for the conservation of the national resources of India and the end may be achieved, wherever possible, by tariffs. After a detailed examination of the Indian industries with a view to determining if any of them have a prospect of profiting by Protection, Professor Lees-Smith admits that as a large part of the home market is still held by Chinese tea, a duty might lead to a further expansion of the Indian industry. He further says that "the tobacco growers also might receive considerable assistance from a tariff. Vast quantities of cheap cigars and cigarettes are imported the place of which might be taken by the products of India herself". Speaking of the sugar industry he states that it is one of the established industries already enjoying the full benefits of production on a large scale, and that any protection given to it will be only a tribute levied upon the public without the excuse of the infant stage. In this connection it may be pointed out that the sugar industry is not an established industry and carried on on a large scale. It is yet to be regenerated. The old industry is dead and has to be re-placed by a new one on modern and broader lines. In this situation it certainly requires protection. It is no small concession from the hands of a Free Trader like Mr. Smith when he concludes his examination of Indian industries

with the remark that tobacco and perhaps iron and steel emerge "as objects that may benefit by a protective tariff. And yet the new revenue duty on tobacco imported into India is to be counter-balanced by an excise! Zeal in the worship of an exploded theory can surely go no further. Or rather self-interest cannot be pursued in a narrower spirit. It is freedom from such restrictions that is needed to enable our Government to frame tariffs that may be found necessary for the benefit of Indian industries and revenue. When the Government of India were asked some seven years ago to state their views on the question of tariff reform, they addressed to Mr. Brodrick, the then Secretary of State for India, a despatch dated 22nd October 1903, embodying their opinions on that problem. There was no definite scheme before them, but so far as they could form an opinion they thought that India had little to gain from being involved in any fiscal scheme. But at the same time they wanted to possess the power of retaliation on foreign countries which would penalise Indian exports. This power of retaliation presupposes the power of adjusting the Indian tariff for the benefit of the industries and commerce of India. Indian Protectionism desires the further extension of this power in the hands of the Government. Our exports to foreign countries consist, for the most part, of raw materials which they have to admit duty free. But they do not hesitate to levy heavy import duties on articles manufactured or partly manufactured and

on commodities they do not need as raw materials for their industries. In his introduction to the Hon'ble Mr. Webb's book entitled "India and the Empire," Sir Edward Law observes:—"They (protectionist countries of the world) thus achieve their object of maintaining a cheap supply of raw materials for their own industries, whilst successfully obstructing industrial development in India. It is their natural desire to keep the peoples of India in the position of hewers of wood and drawers of water for their manufacturers. Ought such a situation to be tolerated when we hold the remedy in our own hands? Can we expect the people of India to accept it with equanimity?" The cry all over the country is for protective duties against foreign goods dumped in our markets at cheap prices. It must be emphasised that Indian Protectionists do not indolently rely upon tariffs. While endeavouring to help themselves and seeking help from Government, wherever it can be given, they insist upon levying substantially heavy duties on foreign competitors. This kind of protection is being advocated not by educated Indians alone but also by Anglo-Indian and English publicists. The Tariff Reform movement in England has strengthened the hands of Indian protectionists. We have indicated above how a protectionist tariff for India may be framed. There need be no wholesale and immediate change. The beginning has been already made by the budget arrangements of the current year though in the name of revenue. The protec-

tionist tendencies of the new duties are, however, apparent and need not be denied as they have not been denied. Attempts are at present being made at retrenchment in the various departments, but no hopes can be built thereon. On the contrary, a larger revenue will be needed year after year, and it will not be possible to get it from land and the other sources, failing which, recourse must be had to import and export duties. Let the articles to be taxed be so chosen as to encourage indigenous industries. By and bye a tariff will be thus developed which will be thoroughly Protectionist. If in the meantime Great Britain becomes a convert to Protection, there will be no necessity for countervailing excise duties, and India will become a full-fledged Protectionist country, perfectly free to regulate its own tariff according to its own requirements. This is, however, an ideal and a dream. The fiscal independence for the Government of India which the above discussion has assumed is beyond the pale of practical politics and we have not, besides, taken into account the most important factor in the situation *viz.*, Great Britain. No tariff scheme which does not commend itself to the English people can ever be thought of by our Government. More than 60 per cent. of our imports are contributed by the United Kingdom, which is therefore sure to be affected by any policy that may be adopted in this country. In the opinion of some publicists it is possible to frame our tariff in a way that will be satisfactory to all parties concerned and that will, while benefiting India, benefit

England and the Colonies also. If our enhanced import and export duties levied against foreign countries, to which alone we have so far confined our attention, have this beneficial effect, nothing could be more welcome, and if our revenues and industries are likely to gain by a policy of Imperial preference, there is no reason also why we should not go in for it. This is therefore a matter which must be closely examined. Mr. J. Chamberlain, with whom the idea of Preference originated, made no reference to India. He was more anxious to bind the self-governing Colonies to the mother country and clean forgot this Dependency. Mr. Balfour, on whom his mantle has fallen, declared the other day that the Indian tariff will always be regulated by the inclinations of the British Parliament and the question of independent action on the part of the Indian Government and the Indian people in the interests of this country did not trouble him in the least. Some lesser lights among the advocates of Imperial Preference are however of opinion that under their scheme India has every chance of benefiting. On the other hand, prominent Liberals have no faith in the bonds of commerce which are to cement the Empire more closely together; in their eyes perfect freedom of exchange is the best condition of strength and solidarity for the Empire. The Government of India pronounced itself as opposed to any tariff wars with foreign countries into which it feels it will be landed if tariff reform is accepted and thinkers like Prof. Lees-Smith are of opinion that England has more to

lose than to gain by Preference while India will neither lose nor gain. Public opinion in this country seems to share this latter view. We, therefore, propose next to examine this question and try to arrive at some definite conclusion in the matter. To-day the discussion may appear as merely academic. But there is every likelihood that at any time within the next few years the question may come within the arena of practical politics. Tariff reform is even now making steady progress in England and the Government of India may, at any time, be called upon to state their views. Public opinion in this country must by that time be definitely formed, and it is our object here to assist the formation of clear and sound views on that subject.

### XIII.

#### PREFERENTIAL DUTIES.\*

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Many of those who have been weaving tariff reform webs in England, have not thought of India as a possible partner having any pretensions to reciprocity. The scheme of Mr. Chamberlain or Mr. Balfour and endorsed by the party of Protection in Great Britain, is to be an affair between the Mother country and the Colonies. The dependencies, under their scheme, will have to accommodate themselves to the arrangements that may be made for them by the Mother country. India (its people and Government) will evidently have nothing to do with this sort of reform which is hardly any improvement on the present conditions. The idea of Imperial Preference—of mutual sacrifices and concessions—intended to make the Empire stronger, more compact and more prosperous, is appreciated in this country, though its practical character is not yet clear. Some lesser lights among English tariff reformers have latterly been putting forward their schemes and assigning a place in them to this country. It is, therefore, necessary to consider whether any possible scheme of Imperial Preference is likely to benefit Indian industries and commerce and revenue. It must be made clear that

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\* Contributed to the "Wednesday Review," 1910.

India would not go in for any scheme unless under it she does not stand to lose. English tariff reformers want preference because they are afraid foreign countries are driving their manufactures out of the world's markets by means of protective tariffs. They want to utilize the demand within the Empire to the fullest extent. The abundant raw materials which the Empire supplies are to be placed preferably at England's disposal. In demanding these sacrifices from the dominions beyond the seas, they are willing to offer concessions which will be denied to foreign countries. The question with us is, will the balance of advantage be on our side?

To decide this we must first consider what sacrifices we shall be called on to make. A major portion of our imports consists of manufactured articles as a larger part of our exports is made up of raw materials. The United Kingdom's share of our imports has been about 66 per cent of our total imports for the last five years. The shares of foreign countries are too small to be taken into account. Germany's share is 4 per cent, Belgium's 4 per cent, Austria-Hungary's 3 per cent, the United States' 3 per cent, while the other countries contribute very little. Of the manufactured articles imported into this country, cotton goods represent a very large portion. On the average of the three years ending with 1908—1909, cotton goods represented 67·4 per cent of the total value of manufactured articles imported. The United Kingdom holds almost a monopoly in the supply of cotton yarn and piece goods to this



country. And the textile industry is exactly the one Indian industry which requires protection. There can be no preferential duties in the case of cotton goods as Great Britain has no rival in that line. Indian finances cannot afford to forego any part of the customs revenue proceeding from the imports of cotton manufacturers. Our import duties are too small to be felt as a burden by Lancashire. We cannot, therefore be called upon to lower our customs duties in its favour. They have nothing to gain thereby; we have everything to lose. Higher duties on the imports of cotton goods from foreign countries would be useless and thus here there is no scope for any preference. India has been long demanding the repeal of the cotton excise duties. Will England be willing to make us that concession? The duties levied by foreign countries on the cotton manufactures of Great Britain are very heavy and range from 30 to 250 per cent. A tariff reform pamphlet thus remarks:—"They (Protectionist countries) shut out our cottons already and our best customers for cotton goods are not the great Protectionist countries, such as France, Germany and the United States, but the countries of the Far East, which have open markets or practically open markets." And further:—"Free trade in India, free and unrestrained competition in India, will presently mean for the workers of Lancashire free and unrestrained competition with American Negroes and with Japanese and Chinese cotton workers." It will thus be seen that tariff reformers are anxious to exclude

from the Indian markets cotton goods of American and Japanese production. India may levy comparatively higher import duties on the goods of these foreign countries and give a preference to Lancashire. But the latter will have the same thing to say about the Indian industry. Here we have cheap labour and a cheap and abundant supply of raw material. Lancashire will insist upon having these advantages counterbalanced by excise duties, which they have been actually doing. Indian public opinion is clamouring against this injustice and it is very doubtful if Lancashire will be induced to make the required concession to this country. Supposing that the excise duties are removed, tariff reformers will not be satisfied with the present low scale of import duties. It has been suggested that "there can be no doubt, if only Indian interests be considered, a low import tariff of, say 5 per cent. all round on all manufactures coming into India (and no excise duties) would prove distinctly beneficial to this country." According to this scheme, in order to distinguish in a rational manner between British manufactures and those from which Britain's rivals derive strength, an additional 10 per cent is to be imposed on all imports coming from sources outside the British Empire. India may consent to this scheme, let us suppose. But will the other partner—the predominant partner—agree to it? That is problematical. It is curious that while British manufacturers suffer foreign countries to impose prohibitive duties on their exports they feel that our Indian import tariff would injure their

interests. The secret of this attitude of mind is that they know they can control the Indian tariff while they are helpless against the fiscal policy of foreign nations. The Government of India in their despatch on the question of tariff reform observe:—"All past experience indicates that in the decision of any fiscal question concerning India powerful sections of the community at home will continue to demand that their interests and not those of India alone shall be allowed consideration...We cannot imagine that merchants of Lancashire or Dundee, to mention only two interests, would be likely to acquiesce in such a course (*i. e.* Indian import duties against England) even though it were accompanied by still higher duties against the foreigner, or that it would be accepted by the Home Government. We therefore dismiss this alternative as beyond the range of the present discussion." The problem thus becomes restricted to the 30 to 40 per cent. of our imports which come to us from foreign countries. This is the conclusion to which an ardent tariff reformer in India like the Hon'ble Mr. Webb comes, and in common with the Government of India he disposes of this alternative as impracticable. (1) Great Britain already takes a lion's share in the imports of this country and enjoys a measure of preference denied to it by foreign nations. (2) If we increase our import duties all round with a further addition in the case of foreign countries, British manufacturers are not likely to acquiesce in the scheme. (3) The condition of Indian finances requires that our import duties must be

enhanced to meet our growing expenditure. (4) Like the British industries, indigenous industries also need protection and this will clash against the interests of British manufacturers. The first alternative not thus being feasible, we must adopt the second. But this too is not to be thought of. If we maintain a low import duty all round, and give Great Britain a preference amounting to 25 per cent, India would decidedly lose. As has been shown above, more than 60 per cent. of our imports are British. They will go off with a low duty. The higher duties on foreign manufactures which constitute a very small portion of our imports, will be no adequate compensation. Our import duties are pre-eminently revenue duties and any reduction in them will entail a heavy loss. This argument gains a peculiar force in the present condition of our finances when we are every day thinking of imposing fresh duties. Then again, what will Great Britain gain by these preferential duties? Practically nothing. Prof. Lees-Smith takes the statistics of Indian imports for 1906—07 and thus analyses them.

Total imports of private merchandise

into British India ...£. 72,205,000.

Imports from the United Kingdom ...£. 48,199,000.

Imports from British Colonies ...£. 5,558,000.

Imports from foreign countries ...£. 18,448,000.

The main object of Tariff reform must be to divert this trade with foreign countries into British channels. Is this, however, possible? Assuredly not. Many of the articles now imported from outside

the Empire are such as, even with a preference, Great Britain cannot be expected to supercede. Kerosine oil and sugar have been suggested as the two important articles of import in whose case preference may be shown to other parts of the Empire though not to the United Kingdom. The first of these has now been subjected to an additional impost though there is no idea of preference underlying it. This enhanced duty was properly objected to on the ground of a necessary of life being taxed. Our great foreign suppliers are the United States and Russia, and whatever the potentialities of the British Empire may be, to-day their contribution is almost nil. The oil industry of Burma is making rapid strides and the new duty is calculated to give it a still further stimulus. But a discrimination in favour of the oils from other parts of the Empire will only tax the pockets of the poor Indian ryot without doing any good to the Empire. Then again, the fear of retaliation at the hands of the foreign countries is great. The extra charge upon the Indian taxpayers will benefit no truly Indian industry, nor will it stimulate any industry in other parts of the Empire. We shall only have the pleasure of retaliating upon some protectionist countries for their penalising British manufactures. The other article of import which may be made the object of a preferential duty is sugar. Our sugar bill is going up by leaps and bounds and a fresh import duty on sugar was suggested this year as a revenue duty. In a few years' time that duty is bound to come. It appears

that about three-quarters of our imports of sugar come from foreign countries, and there is here some scope for a discriminating tariff in favour of the colonies and dependencies. Countervailing duties on bounty-fed sugar have been already imposed and thus the principle has been accepted to some extent. But here too the field is restricted and we have rather to wait for possibilities in the future than to deal with any actual realities. Mr. Webb remarks :—"As in the case of mineral oil, it is possible that the British Empire cannot at present produce sufficient sugarcane or beet for Indian needs, in which case we must of course for the time being satisfy some of our requirements abroad, preferably, however, from the friends who treat us generously rather than from those who squeeze the uttermost farthing from us by heavy duties on Indian and English manufactured products." We have repeatedly pointed out in the course of these articles that Indian public opinion would willingly go in for revenue and protective duties and would also be willing to do a good turn to the United Kingdom and the Colonies. It must, however, be clear from the above discussion that England herself has little to gain from the proposed reformed Indian tariff. The Colonies may perhaps gain to some extent. But the crucial question is, have these latter anything to offer to us in return ? Are they even inclined to make concessions to India ? This is an imperial question of enormous importance. The conduct of the Colonies towards India is of a kind which does not encourage the view

that they will treat this country with any favour. The treatment of the Transvaal Indians and the selfish policy of the Colonies in excluding Indians is an illustration of the Colonial spirit towards India. Even the Imperial Government, which fully appreciates the justice of the cause of Indians in the Colonies, is compelled to resort to measures of retaliation against South Africa. Under these circumstances, the Indian Government and the Indian public may well ask, why should we make sacrifices for the Colonies which they are not inclined to reciprocate? Binding the various parts of the Empire together is a fine ideal, but loyalty to the Empire cannot surely be one-sided?

One fundamental weakness in the position of those who advocate the acceptance by India of a scheme of Imperial preference is that while essaying to consider the question from the Indian point of view, they have to assign a comparatively subordinate place to the interests of this country as opposed to those of the United Kingdom. The principle of mutual assistance and sacrifice being agreed to, India must have the assurance of being dealt with in a spirit of justice and fairness. But it is amusing to find that while no such assurance can be given, the sacrifice of India is insisted upon in a more or less definite manner. India would not be unwilling to discriminate between British goods and those coming from foreign countries and to give preference to the former. It is not only the interest but it is also the duty of Indians to do everything possible that may

tend to the strength and prosperity of the British Empire. A strong and sympathetic British rule in this country is the condition of its progress. The strength and the prosperity of the whole, however, presupposes the strength and the prosperity of the individual members of the Empire. But no Imperialism which does not recognize this can find acceptance with the Colonies and the Dependencies. It must have been clear, from what has been said above that Great Britain already contributes nearly three-fourths of our imports, and the remaining one-fourth consists of such articles as she cannot supply and that therefore, no preference in her favour is calculated to benefit her. Preferential import duties would benefit neither the United Kingdom nor India. British manufacturers would not allow even a moderate import duty of 5 per cent on their goods though accompanied by a higher one of 10 per cent. on those coming from foreign countries. Such a scheme would have the merit of being calculated to give some stimulus to Indian industries, to be productive of substantial revenue to Government and to show a rational preference for the manufactures of the United Kingdom. The Hon'ble Mr. Webb, however, tells us that "the complete adoption of such a policy is, at the moment, probably impracticable owing to the preponderating influence and importance of the manufacturing interests of Great Britain." In an article contributed to the August number of the *Indian Review*, he characterises the excise



duties on Indian cotton manufactures as unjust and dictated by the pressure of Lancashire, yet their maintenance he accepts as inevitable. He says:—"In view of the predominant position which the cotton manufacturing industry occupies in the economy of Great Britain, and therefore, of the British Empire, the Indian excise duties must for the moment remain." Why? Is this the way in which the give and take principle which he so strongly emphasises is to be practically carried out? The fact is, in considering how British manufactures which are said to be fast losing their ground before foreign competition, may be restored to their old predominant position, the Indian aspect of the problem recedes into the background. This is exactly what a fair scheme of Imperial Preference ought to prevent.

From the imports let us now turn to exports. The advocates of Imperial Preference find themselves in a more hopeful position with regard to these latter. A very large proportion of our exports consists of raw materials and articles of food which are indispensable to foreign countries. It is contended that while foreign countries are growing fatter on the manufacture of the raw materials imported from India, no attempt has been made to divert this source of their strength and prosperity towards Great Britain and other parts of the Empire. Heavy or prohibitive export duties are therefore suggested on these exports going to the protectionist nations outside the British Empire. By this, it is said, not

only will British labour and capital gain, but foreign countries levying prohibitive duties on British and Indian commodities will have some pressure put on them and will be compelled to give better treatment to British goods. The United Kingdom at present takes only about 25 per cent of the exports of India. The balance is distributed among the protectionist countries of the world. In discussing the probable nature of a protective tariff, we have already said that export duties may be levied on many of our raw materials and grains that go out of the country in large quantities every year, to the benefit of the Indian revenues and the indigenous industries. As a matter of fact, an export duty on jute was actually suggested in the Imperial Legislative Council when the question of the possible sources for the funds that will be needed for the extension of education cropped up. A similar duty on raw cotton going to Japan has also been advocated on the ground that that country is by its policy of protection getting an advantage over India in the textile industry. There is one point in connection with the proportionate share of the United Kingdom and the foreign countries in their trade with India, which it is necessary to make clear here. To prove how the United Kingdom is gradually losing her ground in manufactures while her rivals are making rapid strides in their industrial progress, percentages of increase are given and the conclusion is drawn that the pace of the advance of foreign nations is very much greater than that of Great Britain. Thus it is said:—"In her

natural function of chief market for Indian commodities the United Kingdom has very seriously lost ground. As a matter of fact, Germany is now buying over 30 per cent and the United States nearly 50 per cent, more from India than they were doing only five years ago!" If the percentage increase in the trade of Germany is greater than in that of England, it must not be forgotten that the total amount in the case of the former is much smaller. Nations like Germany are comparatively new to the manufacturing and trading activity, and their progress is bound to appear more rapid than that of older countries like the United Kingdom which have reached a high water mark. This error is pointed out by Prof. Lees-Smith who quotes Giffen to say:—"In the beginning of things percentages may be large, as we all know, but the real growth may be largest where the percentage is least, in consequence of the greater amount at which the percentage is calculated." We have, before this, urged the necessity of giving the Government of India the power of manipulating its tariff in a way suitable to the interests of the country. But the question we have to consider here is, can the Indian tariff be so framed as to give preference to the United Kingdom and the Colonies over foreign countries in the matter of exports and is this scheme calculated to benefit India?

The largest item in the list of our exports is that of raw jute, it being responsible, on an average, for nearly 20 crores of Rupees every year, while the

exports of jute manufactures average 15 crores. The jute industry in Bengal has made remarkable progress during the past few years. That industry has declined in the United Kingdom before the competition of India and foreign countries. The monopoly of England and India has now been invaded and Dundee has been the greatest sufferer. The free trade policy of Great Britain has been taken advantage of to erect jute mills by foreign countries which, at one time, relied solely on British manufactures. Raw jute is admitted free by almost all countries, while manufactures thereof are subjected to an import duty ranging from 5 to 30 per cent. If we impose an export duty on raw jute, it is likely to be productive and will stimulate the indigenous industry. But if we are to make an exception in the case of the United Kingdom, the Indian industry will certainly suffer in proportion as Dundee gains. While foreign countries will have to work on dear raw jute, Dundee will get it cheaper and will compete with India. Mr. Webb observes :—" In the case of jute, the resultant benefits would accrue rather to the United Kingdom than to India." Then what is the use of this kind of preference which promises no advantage to India? The resultant loss cannot be made up by any thing which the United Kingdom has to offer in return, as we shall see later on. The Indian jute industry is, besides, a British industry, financed and controlled by British manufacturers and Indians only get the advantage of the wages of the mill-hands. It is difficult to believe that the Bengal

manufacturers of jute will consent to an export duty on the raw material if it is accompanied by a preference to Great Britain, which will have the tendency of handicapping them. The jute industry in India being a British industry, it would be superfluous to give preference to the United Kingdom in the matter of raw jute.

The next important item in the export list is raw cotton. Large quantities of it are consumed every year by Japan and the countries of the European continent. The average annual production of Indian cotton is about four million bales. Half of this quantity valued at 20 crores, is exported, the other moiety being retained for internal consumption. Can our cotton exports be so directed as to benefit our country and the Empire? At one time Japan purchased large quantities of Indian yarn. In 1883 she imported 17,000 bales and the highest figure was reached when she purchased 62,000 bales in 1889. But then the downward tendency began. Our exports of yarn to Japan gradually declined until today they have ceased altogether. This was all the effect of a protective tariff. Japan purchases raw cotton from us and has become our serious competitor in the markets of the East. A small export duty may help the mill industry in India. It is now well-known that the number of spindles and looms has enormously increased throughout the world and that the supply of raw cotton is not equal to the demand. The American crop has become an uncertain factor and

Indian cotton is in demand everywhere. Last year our cotton dealers got very high prices though the millowners had to suffer in consequence. Lancashire does not use Indian cotton and relies exclusively on America. But British manufacturers would find it advantageous to turn their rivals from American cotton to the Indian. If the latter is produced in larger quantities and finer qualities, much of the demand for the American staple would be diverted and Lancashire would have the whole of it to itself. The 'cotton growing' and other associations are making attempts to promote the more extended growth of cotton and their attention is chiefly directed to India where their hopes are centred. Lord Morley is being urged to encourage cotton cultivation in this country. An export duty on Indian cotton may encourage the mill industry in the country. It has been suggested that all foreign products made from Indian or any other cotton should be subjected to a 10 per cent duty both in India and the United Kingdom and that those nations who raise a high barrier against the importation of Indian cotton yarns and fabrics ought, either by an Indian preferential export duty on raw cotton or by a preferential import duty on some other commodity manufactured by the competing nation, to be induced to lower or remove their artificial obstruction to their demand for British manufactures. If we can afford to face the retaliation at the hands of the foreign countries concerned, which such a step involves, the proposed export duty may be

allowed. But this opens up many questions of principle and detail and they cannot be dealt with in an off-hand manner. The Government of India will naturally be unwilling to enter into a tariff war unless it is absolutely necessary in the interests of this country. And in the present instance the main prospective gainer is not India but Lancashire. To quote Mr. Webb again:—"In these ways the power of the cotton current can be utilised to some extent for Imperial ends, *mainly, it may be admitted for the benefit of the United Kingdom.* Indian cotton industries would benefit slightly by the extension of home and foreign demand, *but the chief interest concerned, is Lancashire.....*" (The Italics are ours).

With regard to the other items in the export trade of India, such as rice, oil seeds, hides and skins &c., it is asked, why should the protectionist countries of the world which exclude British manufactures by high tariff walls, be allowed to get their raw materials from India free? These raw materials are a very important imperial asset, and they can be used to coerce foreign nations into according a more favourable treatment to goods manufactured by British Indian labour. We may say to these countries, "well, if you want our raw material on favourable terms, you must lower your tariff against our manufactured goods. Otherwise, we shall treat you as you have been treating us." Germany and the United States, for example, have built up large industries at the expense of the British and the Indian industries; and if a scientific tariff is framed, the

resources of the Empire may be developed to the benefit of the Empire. The free trade policy of Great Britain has so long made a readjustment of tariffs impossible. Tea and coffee, indigo and tobacco plantations, almost all of them British concerns in India, have been neglected and allowed to suffer from out-side competition. But here the point of view of the advocates of export duties, as pointed out before, is the advantage of Great Britain; the anxious question with them being, how may the great resources of India be utilised for promoting English manufactures? The Government of India may and even ought to promote the interests of the United Kingdom if it can do so without detriment to the revenues and industries of this country. But the advantage of India is problematical. Thus England ought to give preference to the Indian products. Let us suppose it is Indian wheat. There is however the wheat coming from Canada and other Colonies. Will these be on the same level or will there be discrimination between the two? To-day the Canadian farmers do not want any preference but if preference is given at all they may require more favourable treatment. In that case how will Indian wheat fare? Then as to tea, the lion's share of that article is supplied by India and Ceylon. Efforts are being made to get the duty on the Empire-grown tea lowered. The justification for the maintenance of the present duty given by the Liberal Government was the deficit that would be caused by the resultant loss to revenue and their want of faith in preferences.



as a cementing principle to bind the mother country and the colonies together. If the import duty on Empire-grown tea is further reduced or abolished altogether by a Unionist Government, the tea planters in India will certainly be benefited. But the real competition will be between India and Ceylon. The Government of India said in 1903 that Indian exports are generally admitted free in foreign countries and that where duties are levied, they are moderate. They thought that economically India has little to offer to the Empire and has herself to lose a great deal. Supposing, by a system of preference our wheat trade prospers. This advantage will have, however, to be shared along with Canada, Australia and other British Colonies. Government would avoid all tariff war and they feel sure that if foreign countries know that their hands are free to revise their tariff, they would deal with us on fair terms. This is their position in a nutshell, and who can say that it is not sound? Great Britain imports from India mainly raw materials and articles of food. She cannot afford to make these dear to her by imposing preferential duties on imports. According to Mr. Chamberlain's tariff reform scheme, a ten per cent duty is to be levied on the manufactured imports from foreign countries. India, however, exports few manufactured articles to Great Britain and can therefore have no conceivable preference given to her. Her raw materials are admitted duty free and in some cases preference may be given but this is not likely to be

of much importance. Our trade with the Colonies is too small to demand any serious notice. Both they and the mother country have little to offer to us in return for the services they require at our hands. They will not be ready to allow Indian industries to develop at their cost or at the least disadvantage to themselves. Preference in imports and exports upon this article and that, is suggested as being required from India but little is promised on behalf of Great Britain. While there are to be large items on the debit side of our account sheet the credit side remains a blank. This is the reason why the Government of India seek to secure a free hand in manipulating their own tariff and refuse to be involved in a tariff war with the whole world.


We have so far dealt, as briefly as the importance of the subject would allow, with the various aspects of tariff problem in connection with India. When the question of free trade and protection, of reciprocity and preference and of Imperialism are being hotly discussed in England, and India is either passed over or relegated to a subordinate position, it has become necessary to place the purely Indian point of view before the public. It is hoped that we have made clear the Indian attitude towards this important problem. We may conclude with a very brief summary, of the views expressed in the course of the discussion. (1) It is not right to assert dogmatically that either free trade or protection is the best economic policy to be pursued by any nation. Both

these have their merits and under certain circumstances are calculated to be productive of the greatest good. As an ideal free trade is most desirable and to a country circumstanced as the United Kingdom is, it may be the only system that must be adopted. India also cannot deny that free trade has done her some good and is likely to prove beneficial in certain cases. But we now know by experience that our industries have declined under a free trade *regime* and that protection is needed for the conservation of our national resources and the development of new industries in the face of keen outside competition. Recent advance in the science of economics is a revolt against the abstract theories of the old school and the present Indian attitude is in consonance with the historical and national aspects of the growth of that science, emphasised by the latest thinkers. (2) That the whole of educated India, the Anglo-Indian press and the Government itself, favour a policy of protection consistent with a healthy progress of the country is now well-known. Indian protectionism is not a blind and unthinking imitation or a sudden revolt against the existing system of finance and industry. It is the outcome of mature thought combined with long experience and is endorsed by the best talent and judgment in the land. Indian protectionism, would not suddenly raise a high tariff wall against all the foreign goods, much less British goods, nor would it, in a heat, restrict its exports to other nations. Each step is to be taken cautiously and carefully as it may be necessitated by

the requirements of finance and industry. (3) For this purpose the Government of India ought to be allowed fiscal freedom so that it may manipulate its own tariff and deal with the import and export duties solely with an eye to the interests of the country. It should be in a position to increase the customs duties all round or levy new duties on articles exported such as jute and cotton for purposes of revenue, protection of indigenous industry and expansion of Indian trade. (4) Such fiscal independence does not entirely preclude the idea of Imperial Preference. India will be glad to discriminate in favour of British goods and do all that is in her power to promote the strength and prosperity of the Empire. This country has often made sacrifices of this kind and its services to the cause of the Empire have been recognized. (5) But as matters stand, no feasible scheme of preference can be devised which does not entail heavy and disproportionate loss on her. Neither the United Kingdom nor the Colonies have ever evinced any sympathy for the struggling industries of India. Great Britain already enjoys more than 60 per cent. of Indian imports and a large proportion of the exports also. While British goods are heavily taxed in foreign markets, they are admitted on a nominal duty into this country. Of the remaining 40 per cent. of the imports supplied by foreign nations, it is not physically possible for the Empire to contribute even the smallest share. Preference for British goods, therefore is superfluous. Lancashire would retain its grip on the Indian market at any cost, and

the Indian textile industry naturally wants protection against this competition. Japan's rivalry is already undermining our position in the East and India cannot afford to be handicapped in this struggle. India has little to offer to the Empire and the Empire has scarcely anything to give in return. (6) The schemes of preference adumbrated by advocates of tariff reform appear to be primarily animated by an anxiety to support the struggling industries of Great Britain and the indigenous industries of this country recede into the background. (7) While the very important position of this Dependency in the Empire is glorified, in practise the attentions paid to it are hardly commensurate with the professions. The treatment meted out to loyal Indian citizens of the British Empire by the Colonies has compelled even the Government of India to take to retaliation. The imperialism of tariff reformers seeks only to lay the burdens of sacrifices on India's shoulders without compensating them with privileges. The pronouncements of the leaders of the tariff reform party are far from assuring and Imperial Preference, in this manner, only becomes the means of benefiting the United Kingdom at the expense of India. (8) All these considerations point to the conclusion that, notwithstanding their desire to bear their share of the burden of the Empire and to be in all cases fair to the United Kingdom, the people and the Government of India cannot be induced to enter into any Imperial scheme of preferences which promises them no prospect of reasonable gain. What

they demand, on the contrary, is fiscal freedom. There ought to be no apprehension that this autonomy will tend to the detriment of the United Kingdom. A prosperous India will be the most valuable asset of the British Empire. The commercial and industrial development of this Dependency will be a great ally of Britain in the keen struggle that is sure to rage in the near future, in the markets of the East among Eastern nations like Japan, China and Western countries like Germany, the U. S. A. and England herself. (9) If tariff reformers at Home and in the Colonies wish India to participate in Imperial Preference, they will have to modify considerably their attitude towards this Dependency and propose a reasonable scheme that may be acceptable. But a scheme thus framed will lose all its charms in the eyes of British and Colonial protectionists and therefore is, for all practical purposes, a chimera.



#### XIV.

#### INDIA AND IMPERIAL PREFERENCE.\*

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For obvious reasons India has not occupied in the British imagination the same place as the self-governing and other colonies have done. The average Britisher's ignorance about this country is proverbial though natural. India has long been commonly regarded as a convenient field for exercising the administrative and the military talent of the British race and the prospect of developing its rich and untapped natural resources has been held out as a temptation to lure public attention to it. The strategical position of this 'pivot of the Empire,' its enormous trade potentialities and its teeming millions, its ancient civilisation and superior spiritualism have often been advanced as her claims upon the regard of the stay-at-home Englishman, the Imperialist and the Colonist. The interest evinced by the people of Great Britain and the Colonies, absorbed in their own problems, could not but be languid with regard to Indian questions and the sense of Parliament's responsibility in the matter of the proper governance of this country is easily satisfied by the conviction that in the hands of the Secretary of State and the Government of India everything must here be quite right. This attitude is, however, happily undergoing a slow but sure modification and of the factors which have contributed to shape this

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\* "Indian Review" November and December, 1911.

desirable tendency none is so important as the personal interest which His Imperial Majesty King George V., like his august father, has taken in the progress and welfare of this dependency. Their Majesties' visit to India, their presence among its many millions and the proclamation of their Coronation by His Majesty's word of mouth, constitute an unprecedented honour such as has never been done to any other part of the Empire overseas. This unique distinction shown to India on the one hand and the spontaneous outburst of loyalty to the British throne and the British Empire which the event has evoked among Indian people, on the other, ought to bring home to the mind of the British race the fact that India ought to be accorded no inconsiderable position in the British Empire. The eyes of the whole Empire and of the world are at present turned to this most essential member of that glorious organization and the auspicious event which has been celebrated throughout the length and breadth of this country, ought to cement still more strongly, the dependency to the Empire. The final goal of the Indian people is, in due time, to be able to obtain all the rights of British citizenship and to give their land its proper rank among the self-governing dominions of the Empire.

As has been said above, for obvious reasons, this rank has been denied to India and her direct voice has never been heard in the Councils of the Empire. The two political parties in England do what they think wise or expedient on behalf of this country without



taking into confidence the best exponents of Indian public opinion. While the Reciprocity Agreement question was being fought out in Canada, the Liberal Government, however it might bless the measure, had to remain a silent spectator of the game, and Sir Wilfrid's party, which represented liberalism in the Dominions, was defeated before its eyes. But the two parties can impose their political and economic doctrines on India without let or hindrance. While the Liberals are in power, free trade must be the dominating note of our economic and fiscal policy, and we shall have to submit to preferential tariffs when the Conservatives secure the reins of Imperial Government. Imperial Preference has, for some time past, been the chief plank in the Unionist programme, and though it will now be overshadowed by Home Rule and the Upper Chamber questions, fiscal reform must continue to engage public attention. In Great Britain and the Colonies, the latter having already made considerable advances in that behalf. The recent events in Canada indicate the triumph, though temporary, of Imperial Preference and various schemes in connection therewith have been already discussed and propounded. Free traders, of course, do not believe in any beneficial effects of protective tariffs nor have they any faith in the unifying properties of Imperial Preference. During the last ten years the Imperial sentiment has become very strong in the Colonies which have shown their readiness to make concessions to and sacrifices for the mother country and

for one another. The question is naturally asked, is the mother country to make no response to Colonial sentiment and offers of sacrifice? The present Liberal Government which was pleased to see Canada making a separate tariff agreement with the U. S. A. as it harmonised with its economic doctrines, irrespective of any considerations of Imperial Preference, had to yield to the pressure of Colonial feeling focussed at the last Conference so far as to appoint a committee to inquire how far the present fiscal relations of the members of the Empire with one another and with foreign states can be modified with advantage. This was intended as a mere sop to the Colonies and with it they have been for the time being satisfied. But in the case of India there is no need of doing even so much and free trade principles can here be applied in all their rigidity and nakedness. The apostles of free trade very pertinently twit the tariff reformers on the flagrant injustice they will have to do to India if their scheme is ever carried into operation. Suppose, say they, Great Britain turns protectionist to-morrow, will they allow to India the same measure of protection as they seek for themselves? The question is unanswerable. Lancashire will not, even for a moment, tolerate the idea of its stuffs being taxed in India. Free traders, of course, avowedly believe that protection is bad in all its forms and that protective duties are mischievous. It is therefore quite in consonance with their theory that a counteracting excise duty should be levied on the mill-produced cotton fabrics in India,

if they benefit by the import duty on foreign cloth. But British protectionists cannot consistently claim protection for their own industries and refuse it for those of India. An exponent of the British free trade policy recently wrote in answer to a tariff reformer :—

“ The policy of the Tariff Reform League, so far as it has been defined, means the admittance of British goods into India free of protective duties. The policy of Indian Protectionists is to shut out British goods by prohibitive duties. The attempt to reconcile these policies is as futile as the attempt to square the circle.”

Indian Protectionists do not certainly want to make British goods a special object of their attack, though they are keenly desirous of encouraging their industries by means of import duties and otherwise. It is curious to note that the British tariff reformer is a protectionist at home and a free trader with reference to India. The position of the free trader is intelligible, not so that of the tariff reformer unless he is to be supposed to be animated by pure selfishness. If that is so, his vaunted Imperialism is a cloak to hide his interested motives. No wonder then that advocates of protection in India are suspicious of the blandishments of the tariff reformer and prefer his rival, the apostle of free imports.

For India, unmitigated free trade is bad enough ; but there is strong reason to fear that Imperial Preference would be worse. The latter idea is based upon free or preferential trade within the Empire and high tariff walls against the protectionist world ; upon

mutual concessions and sacrifices among the members of the Empire for the good of the whole. The common benefit, however, presupposes the benefit of the several constituent members. With every desire to do her part of the imperial compact India will insist, all things considered, upon the balance of the advantages which preferential tariffs are supposed to be capable of yielding, turning, however slightly, in her favour. If all British goods are admitted duty free into this country, foreign articles taxed, and commodities exported to non-British nations subjected to a duty, what will be the gain of India that may be set off against the obvious loss? The cotton excise duties may be removed and the revenue duties against the imports of Indian tea and tobacco may be taken off. This means a considerable loss of revenue on the one hand unaccompanied by any gain on the other. As things stand at present, on an average of the last five years, 64 per cent. of the import and 25·6 per cent. of the export trade of India falls to the share of the United Kingdom. The remaining 36 per cent. of the imports consist of articles which Great Britain cannot manufacture and no amount of concessions would create those manufactures there. As to the exports a similar remark may be made. The United Kingdom does not import more than 25 per cent. because it does not want more from India. While Great Britain exports more than thirty-five crores worth of cotton manufactures to India, Holland comes next with only half a crore and Germany and America are almost no

where. Now, suppose the import duty of  $3\frac{1}{2}$  per cent., is removed or abolished, what will England gain against her rivals ? Nothing. India will only lose a crore and a half of her customs revenue, a pie of which she cannot afford to sacrifice in her present financial situation. Far from reducing our import duties we shall have to enhance them for revenue purposes as some of them have already been. We are told that the abolition of the import duty on British cotton manufactures will make clothing cheap in India. But how dearly will that cheapness be bought ? The price will be loss in revenue and the ruin of the indigenous textile industry, the only substantial Indian industry in existence. If again, foreign articles which the United Kingdom cannot supply are subjected to heavier duties, they will be dearer to the consumer and thus the argument of cheapness falls to the ground. Of the export of Indian tea Great Britain takes a substantial share and the remission of the import duty in British ports is not likely to be of much advantage to us. An export duty on our raw materials, it is argued, taken by foreign countries will be productive of revenue and advantageous to Britain. Foreign nations cannot do without those goods, however burdened with duties. But as the Government of India remarked in their famous despatch of 1903, this will only involve us in tariff wars and foreign countries may very well retaliate upon us. Even granting that the export duties are levied upon foreign purchasers, as the Government of India

might well do for purposes of revenue, it will only be an indirect gain to the United Kingdom. If Great Britain can offer us something worth bargaining for, then the proposals of tariff reformers may be seriously considered. So far as the schemes of preference that have been formulated are concerned, they seem to be intended only to utilize India's raw materials to assail foreign rivals of England and to make the Indian market a monopoly for British manufacturers. The advantages that are put to the credit of India in the Preference account are illusory while the items on the debit side are substantial. This is not business but juggling. Some advocates of preferential trade have frankly confessed that owing to India's peculiar economic conditions she does not stand to gain anything for many a year to come by such trade, but all the same, they want to make this Dependency a lever with which the United Kingdom is to recover the economic ground it has lost to her rivals. No shrewd man will make a bargain on these terms, nor will a fair-minded person have the hardihood to offer them. Our trade with the Colonies and other Dependencies is too small to be taken into account and mutual preference in their case will not affect the Indian situation in any way. To the United Kingdom the trade with the Colonies is important, as British exports to the self-governing colonies taken together are nearly 23 per cent. more than those to India.

So much about the business side of the question.

As regards the sentiment involved in it, Indians have not been admitted to a partnership of the rights of the Empire, and therefore they cannot be blamed if no cord of enthusiasm is touched in their breast by an appeal to Imperial sentiment. The blessings which British rule has conferred upon India are patent to every one and none are more conscious of and thankful for them than the Indians themselves. They have firm faith in the noble traditions and instincts of the British race and wish that the lofty ideal of British statesmanship that India ought to be governed in her own interests, should be translated into practical action. The attitude of the self-governing colonies towards India is not such as to foster any imperial fervour in the minds of its people and a change in this attitude is urgently required if this dependency is to take its proper place in the comity of nations which constitute the British Empire. Even so circumstanced, India will not be unwilling to do her duty by the Empire and make sacrifices, as she has so often done in the past, if the other members make a reasonable advance. If the advocates of preferential trade within the Empire are really serious in doing justice to every member of it, let them allow India to retain her import duties on cotton manufactures for the protection of her indigenous industry and she will give preferential treatment to British goods. The schemes so far formulated are only one-sided and if there is no real reciprocation they will receive no favourable response in this country.

Opinions may differ as to the suitability or otherwise of a protectionist policy in India. Whether protection would be advisable in an industrially advanced nation like the United Kingdom and unwise in a backward country like India with her infant industries struggling into a vigorous life, the demand for fiscal independence for this country is growing stronger every day. And neither the Government of India nor the people will acquiesce in a fiscal policy which holds out no substantial economic advantages to this country. The opinion of the educated Indians leans strongly towards protection. It believes that if free trade is good for England it is not equally good for India. It appears, however, that a modified free trade policy will be better for us than the sort of Imperial Preference which has been offered for our acceptance. The Indian Government wants the same fiscal liberty as the Canadian Government, for instance, enjoys and unless that is conceded, India will not be in a position advantageously to join in schemes of Imperial Preference. The views of Prof. H. B. Lees-Smith in this connection are valuable, though we cannot subscribe to everything he says regarding Indian protectionism. He observes :—

“By preferential tariffs Great Britain will lose heavily in her Indian market. India, however, has little either to lose or gain from preferences themselves. Nevertheless, the proposals for preferences are of the highest importance to her. If they are ever adopted by the United Kingdom, they will undoubtedly be accompanied by a return to protection. India will



then have a unique opportunity of gaining her fiscal freedom. Although I have not disguised my suspicions of the prevailing protectionist sentiment of India, I wish to see her freely adopting the fiscal policy which she considers most for the good of her own people. India, of course, means for this purpose the Indian Government, acting, I sincerely hope, in conjunction with the educated opinion of the country. My advice to the leaders of Indian opinion is simple. They should make it plain that if a preferential scheme is adopted, they are willing that India should have a place in it. One fact, however, must stand out clearly. Should Great Britain adopt protection she must honourably face the consequences of her conversion and allow to India the right to follow in her footsteps, if Indian administrators and thinkers consider it to be for the country's good."

It is to be hoped that the visit of Their Majesties to this country will bring the British people to a frame of mind favourable to a correct appreciation of India's place in the Empire and their duty and responsibility towards its people. Only on this basis of fiscal freedom for India can a reasonable scheme of Imperial Preference be framed which will be conducive to the economic progress of this country and the greater solidarity of the British Empire.